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AUDITOR GENERAL

Report to the Legislative Assembly of British Columbia on the 1990-91 Public Accounts

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Legislative Assembly
Province of British Columbia

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The Honourable Joan Sawicki
Speaker Designate of the Legislative Assembly
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Madam:

In accordance with the authority contained in the Auditor General Act, RSBC 1979, I submit to the Legislative Assembly of the Province of British Columbia this special report entitled, Report to the Legislative Assembly of British Columbia on the 1990-91 Public Accounts.

George L. Morfitt, F.C.A.
Auditor General

Victoria, British Columbia
January 24, 1992

copy: Mr. Ian M. Horne, Q.C.
Clerk of the Legislative Assembly

REPORT TO THE LEGISLATIVE ASSEMBLY OF BRITISH COLUMBIA ON THE 1990-91 PUBLIC ACCOUNTS

TABLE OF CONTENTS

AUDITOR GENERAL'S OVERVIEW 1

INTRODUCTION 5

The Auditor General's Mandate 5

The Public Accounts 5

The Government's Financial Statements 6

Changes to the Auditor's Standard Report 6

Results of the Audits 7

AUDIT OF THE GOVERNMENT'S FINANCIAL STATEMENTS 11

Unfunded Pension Liability: Reservation of Audit Opinion 11

Amounts Recoverable Through Future Appropriations 12

Comparison of Reported Financial Statement Amounts 14

The Budget Stabilization Fund 16

Accounting at the Ministry of Transportation and Highways 17

Change in Government Accounting Policy 18

Defining the Government Reporting Entity 18

Accounting for Government Transfers 20

General Standards of Financial Statement Presentation for Governments 22

AUDIT OF PUBLIC BODY FINANCIAL STATEMENTS 27

Introduction 27

Audits of Public Bodies 27

British Columbia Hydro and Power Authority Preferred Funding 29

Unrecorded Lottery Grant Payments 30

Statutory Pension Plans 31

Funding the Pension Plans 31

Inflation Indexing 32

Financial Reporting for Pension Plans 32

Actuarial Valuation of the Members of the Legislative Assembly (MLA) Superannuation Account 33

APPENDICES

A Auditor General Act 37

B Mission Statement 42

C Office of the Auditor General: Audit Objectives and Methodology 44

D Public Bodies Audited by the Auditor General 52

E Public Bodies Audited by Private Sector Auditors, and Whose Financial Statements are Included in the Public Accounts 53

F Excerpts from the 1990-91 Public Accounts: 54

AUDITOR GENERAL'S OVERVIEW

AUDITOR GENERAL'S OVERVIEW

As a general rule, accountability information is more valuable when provided in a timely manner. It is for this reason that I have, for several years, been encouraging the government to release the Public Accounts as soon as possible after the March 31 fiscal year-end.

In the past, the annual Public Accounts were normally issued at the beginning of the spring session of the Legislative Assembly, a date usually some 12 months after the applicable fiscal year-end. This year, the Province's 1990-91 Public Accounts were issued on December 30, 1991.

I commend the government for this initiative, and trust that it will, in future years, endeavour to publish this important accountability document on an even more timely basis.

My comments on the Public Accounts are, in the normal course, presented in my Annual Report to the Legislative Assembly. That report is issued only after it has been tabled during a sitting of the Assembly.

This year, in light of the earlier issuance of the Public Accounts, and in the interest of providing the Members of the Legislative Assembly, and the general public, access to my observations on the information contained in the Public Accounts, I am issuing this separate public report.

REPORT CONTENTS

As a result of audits carried out by my Office, I have given audit opinions on the government's financial statements for the fiscal year ended March 31, 1991, and on the financial statements of Crown corporations and other public bodies whose fiscal year-ends occurred on that date or during that fiscal year. In this report I provide comment on those opinions, as well as on other matters arising from our audit of those financial statements.

Not included in this report are the results of the several value-for-money and special audits of government ministries and organizations undertaken by my Office during recent months. These audits will be detailed in my 1992 Annual Report to the Legislative Assembly.

TWO MATTERS OF SPECIAL NOTE

When reporting to the Legislative Assembly, I confine my comments to

those observations and findings which I believe to be of particular interest or significance. Consequently, Members of the Assembly and other readers of this report are encouraged to review and fully consider all the items discussed in it. However, there are two matters of significance which should receive individual mention in this overview commentary.

Firstly, it should be noted that my audit opinions on the government's three main sets of financial statements each contain a reservation, or qualification, as to the fair presentation of those statements. The reservations concern the fact that the government's liability for the unfunded portion of pension benefits earned by employees has not been recorded in the accounts of the province. That liability was approximately $441 million as at March 31, 1990, the date of the latest actuarial valuation. This and several other important issues relating to the accounting for, and funding of, statutory pension plans administered by the government, are discussed in the body of this report.

Secondly, there continues to be recorded as an asset of the province some $2,800 million of amounts receivable from various public bodies; amounts which, it appears, may not be repaid except through future funding by the government itself. The issues relating to the accounting treatment of these types of receivable are currently being considered by the Canadian Institute of Chartered Accountants. However, as detailed in this report, it is my view that amounts receivable from public bodies which will likely be funded through future government appropriations should be reduced in value, so that only the amounts realizable by the public bodies from sources other than the government are included in the government's financial statements. This is an important issue on which I have reported before, and is one which should be given priority consideration by government officials.

I wish to recognize and compliment the staff of my Office for the thoroughly professional manner in which they have attended to the audit requirements of the Legislative Assembly.

George L. Morfitt, FCA
Auditor General

Victoria, British Columbia
January 24, 1992

INTRODUCTION

INTRODUCTION

This report contains comments and observations arising from the Auditor General's audit of the financial statements of the government for the fiscal year ended March 31, 1991. It also relates to audits of the financial statements of various Crown corporations and other public bodies, in particular those for which the Auditor General is the appointed auditor.

THE AUDITOR GENERAL'S MANDATE

The Auditor General is required, under the provisions of the *Auditor General Act*, to examine the accounts and records of the government and to report annually to the Legislative Assembly on the government's financial statements. In these reports, the Auditor General must state whether he has received all the information and explanations he has required and whether, in his opinion, the statements present fairly the financial position, results of operations, and changes in financial position of the government in accordance with its stated accounting policies, consistently applied. If he is unable to express his opinion without reservation, he is required to state the reason why.

The Auditor General is also eligible to be appointed auditor of a Crown corporation, Crown agency, or public body. The Act does not specify what is required of the Auditor General in the conduct of such audits. In the absence of specific direction, the work is carried out in a similar manner and with the same objectives as those applied to the audit of the government's accounts.

THE PUBLIC ACCOUNTS

Each year, in accordance with the *Financial Administration Act*, the government prepares a document titled the Public Accounts. This document contains the financial statements of the government, the Auditor General's reports on those financial statements, and other information the government is required or chooses to include in the publication. The form and content of the Public Accounts, as well as the accounting policies used in the preparation of the financial statements, are determined by the Treasury Board.

The Public Accounts for the 1990/91 fiscal year are published in two volumes titled, respectively, *Consolidated Reporting Entity, Trust Funds and Summaries of Financial Information Reports* and *Financial Statements and Schedules of the Funds Comprising the Consolidated Revenue Fund.*

The first volume provides an overview of the total financial affairs and resources for which the government is responsible. It contains the government's Summary Financial Statements (formerly titled the "Consolidated Financial Statements"), and the Consolidated Revenue Fund Financial Statements (formerly titled the "Combined Financial Statements"). It also contains audited financial statements of government organizations and enterprises, and of certain trust

funds administered by the government. Finally, the volume contains summarized financial statement information of corporations and entities to which the *Financial Information Act* applies.

The second volume contains the audited financial statements of the General Fund, the Privatization Benefits Fund, and the Budget Stabilization Fund, together with supplementary schedules to the General Fund financial statements and detailed schedules of payments from that fund. This volume is intended to serve as the government's accountability report to the legislature on revenues raised and expenditures made as authorized by the *Supply Act* and other statutory spending authorities.

The Government's Financial Statements

The government's financial statements are an important link in an essential chain of public accountability. They are the principal means by which the government reports to the Legislative Assembly, and to all British Columbians, on its stewardship of public funds.

The Summary Financial Statements are the most comprehensive statements issued by the government. They reflect the financial activities of central government, combined with those of other government organizations that are owned or controlled by the government, and that are accountable for the administration of their own financial affairs and resources either to a minister of the government or directly to the legislature. A copy of these financial statements, together with the Auditor General's report containing his opinion on them, appears in Appendix F of this report.

Next in order of completeness are the financial statements of the Consolidated Revenue Fund. This fund, established in keeping with the *Financial Administration Act*, accounts for all the financial activities of central government. Accordingly, its financial statements also constitute an important accountability document.

Finally, financial statements are published for the three funds making up the Consolidated Revenue Fund: the General Fund, the Privatization Benefits Fund, and the Budget Stabilization Fund. This is the first year that formal financial statements have been presented for the Privatization Benefits Fund and the Budget Stabilization Fund. In previous years, financial information about these special funds was published in the form of supplementary statements to the Combined Financial Statements.

Although constituting only a part of the Consolidated Revenue Fund—albeit a major part—it is the General Fund to which the government has generally referred when describing its operating results for a fiscal period.

Changes to the Auditor's Standard Report

During the year under review, the Canadian Institute of Chartered Accountants (CICA) introduced significant changes to the wording of the standard report to be used by an auditor who is engaged to express an opinion on general purpose financial statements. These changes were adopted by the CICA to emphasize the respective roles of management and the auditor with respect to the statements, and to clarify the meaning of the auditor's opinion contained in the standard report.

Formerly, the auditor's standard report contained two paragraphs. The first, often referred to as the "scope" paragraph, identified the financial statements that had been audited, commented on the auditing standards employed, and stated whether all necessary information and explanations had been received. The second paragraph, usually referred to as the "opinion" paragraph, contained the auditor's opinion as to the fair presentation of the financial information.

The new auditor's standard report contains three paragraphs. The first identifies the financial statements that have been audited. It also points out that the statements are the responsibility of management, and that the auditor's responsibility is to express an opinion on the statements. Next is the scope paragraph, which describes the nature and extent of the auditor's work, and the degree of assurance that the auditor's report provides. It refers to generally accepted auditing standards and describes some of the important procedures which the auditor undertakes. Finally is the opinion paragraph, which contains the auditor's conclusion based on the audit conducted.

The new standard report has been adopted by the Auditor General of British Columbia for all reports dated on or after March 1, 1991.

Further comments on the significance of the auditor's opinion, and the process employed in reaching that opinion, appear in Appendix C of this report.

Results of the Audits

As a result of the examinations carried out, the Auditor General has provided auditor's reports on each set of financial statements prepared by the government for the fiscal year ended March 31, 1991, including those of the special funds previously referred to; and on the financial statements of 34 Crown corporations and other public bodies whose fiscal year-ends occurred on that date or during that fiscal year.

The reports on the government's financial statements appear with the respective statements published in the Public Accounts. Reports containing the Auditor General's opinions on public body financial statements are similarly appended to the respective statements of each organization.

While conducting our financial statement audits, we encounter numerous items which call for study and corrective action by the ministries, central agencies, and public bodies concerned. We deal with these matters by direct contact with officials of these organizations. Some issues, however, are considered of sufficient significance to warrant the attention of the Legislative Assembly. Those arising as a result of our audit of the government's financial statements appear in the following report section. Those relating to our audit of public bodies are contained in a subsequent report section titled, "Audit of Public Body Financial Statements."

AUDIT OF THE GOVERNMENT'S FINANCIAL STATEMENTS

AUDITOR GENERAL BRITISH COLUMBIA

AUDIT OF THE GOVERNMENT'S FINANCIAL STATEMENTS

UNFUNDED PENSION LIABILITY: RESERVATION OF AUDIT OPINION

The government has a liability for the unfunded portion of pension benefits earned by its employees. It has chosen, however, to exclude the recording of this liability from its accounts and published financial statements.

In the Auditor General's annual reports to the Legislative Assembly for each of the years 1988 to 1991, it has been recommended that the government record its pension liabilities in its accounts and financial statements. This year the decision has been taken to issue a reservation qualifying the Auditor General's opinion as to the fairness of presentation of the government's financial statements for its 1990/91 fiscal year. The reservation concerning the government's summary financial statements is expressed as follows:

> *These financial statements do not include the Government's liability for the unfunded portion of pension benefits earned by employees. The Government only records as pension expenditure the amount of funding it provides in accordance with the Pension (Public Service) Act. If the Government had been recording the full cost of pension benefits accruing to its employees in each fiscal year, in the manner recommended in 1988 by the Canadian Institute of Chartered Accountants, the Government's liabilities and net deficiency would have been increased by approximately $441 million as at March 31, 1990, the date of the latest actuarial valuation pursuant to the Pension (Public Service) Act. Since no other actuarial valuations have been carried out using the recommended accrued benefit method, the effects on the consolidated net revenue (expenditure) for the years ended March 31, 1990 and 1991, and on the liabilities and net deficiency at March 31, 1991, are not reasonably determinable.*

The $441 million referred to above is arrived at by comparing the basic account assets, at market value, of the Public Service Superannuation Fund at March 31, 1990 ($3,013 million), with the accrued pension liabilities at that same date ($3,454 million).

To understand the context of this matter, one should be clear about a few basic points. First, the government's publicly stated basis of accounting is the accrual basis. A major government accounting policy that flows from this is that all liabilities are to be recorded to the extent that they represent claims payable to outside parties as a result of events and transactions occurring before the year-end.

Next, Public Sector Accounting Statement 5, issued by the CICA in November 1988, states that pensions are a form of compensation offered for

services rendered, and that they accrue over the years in which employees render those services. Accordingly, that statement makes the following recommendation: "The statement of financial position (balance sheet of a government) should account for the pension liability and the statement of revenues and expenditures should account for the pension related expenditures on the basis of the value of the pension benefits attributed to employee service to the accounting date."

The British Columbia government has historically been recording, as its pension expenditure for each fiscal year, the amount of funding it has provided in accordance with the *Pension (Public Service) Act*, rather than the full cost of pension benefits accruing to its employees in each fiscal year. The government's most senior financial officials have recently expressed their support for the concept of recording the government's full liability for unfunded pension liabilities.

It is appropriate to compare this issue in British Columbia with its status in some of the other senior government jurisdictions in Canada. The Government of Canada and the Province of Quebec record their pension liabilities in their financial statements; and the Provincial Auditors of Manitoba and Saskatchewan and the Auditor General of New Brunswick have expressed reservations which qualify the audit opinions on their provinces' latest financial statements in regard to unrecorded pension liabilities.

We consider this matter of the recording of unfunded pension liabilities to be an urgent financial reporting issue in need of corrective action by the government. We therefore urge the government again to accept and approve the recommendation to record its pension liabilities on the basis of pension benefits earned by employees.

Amounts Recoverable Through Future Appropriations

As we stated in our 1991 Annual Report, the government's balance sheet as at March 31, 1991, contains as its largest asset a category titled "Fiscal Agency Loan Program." This asset category comprises amounts receivable from government bodies ($7,396 million) for loans made to them.

Included in this sum are amounts owing from the province's universities, colleges, institutes, hospital districts, school districts, and other public sector organizations such as British Columbia Transit. Many of these organizations have few sources of funds from which to repay the amounts owed to the government—except, of course, future receipts of funds from the government itself. The question that follows from this is whether such amounts receivable from public sector organizations should be considered as "assets" of the government.

Professional accounting terminology prescribes that assets, to be considered as such, should possess certain essential characteristics, such as the capacity to contribute to future net cash flows. Assets are defined as money or money equivalents (e.g., investments), or the reflection of expected future benefits. The CICA's Public Sector Accounting Statement 3 defines financial assets for government financial statements as being those assets on hand which could be used to discharge existing liabilities

or finance future operations. Amounts receivable by the government from government bodies—amounts which can be expected to be repaid out of future appropriations from the government itself—would not appear to meet the tests for being considered as "assets."

Aside from the question as to whether or not certain loans should be recorded as assets is the consideration as to whether such loans should be reduced by valuation allowances to their net realizable value.

The most common method for reducing the book values of assets to their estimated net realizable value is to provide for valuation allowances. These allowances are deductions from the face value of such assets as amounts receivable or amounts invested. Public Sector Accounting Statement 3 recommends that valuation allowances be used so that financial assets are reflected at their net recoverable, or other appropriate, value. Such valuation allowances are to include allowances for amounts recoverable only through future appropriations.

Amounts recoverable of this nature, including those loans in the government's Fiscal Agency Loan Program asset category, are represented mainly, but not entirely, by amounts owing from British Columbia Transit ($979 million) and from the province's health and education organizations ($2,335 million). British Columbia Transit does not generate a financial return on its operations sufficient to service its debt. The province's annual contributions toward the payment of health and education debt service costs have, in recent years, approximated 80% of those costs.

Thus, of the total $7,396 million amount receivable within the government's Fiscal Agency Loan Program asset category, approximately $2,800 million will likely require repayment out of future appropriations from the government itself. However, no allowance or other separate form of recognition has been established to alert financial statement readers of whether the loans in this significant asset category are collectible.

In other provincial government jurisdictions, similar types of assets are found and their valuation considered. Ontario in 1986, for example, removed from that province's accounts certain financial assets that were to be repaid out of future provincial expenditure appropriations. New Brunswick did the same in 1988. In Saskatchewan, the Provincial Auditor has included a reservation to his audit opinion on that province's financial statements because of an amount included in the asset category "Loans to crown entities"—an inclusion considered to be inappropriate, since its repayment depends on future appropriations from the province's Consolidated Fund. Notes to the Manitoba and Prince Edward Island government financial statements inform the reader of asset amounts that depend on future government appropriations for their repayment. In Alberta, the cost of capital construction projects for such institutions as advanced education organizations and hospitals is provided for by the Alberta Capital Fund, and those costs result in a charge to that province's accumulated net equity.

It is noteworthy that the Health Facilities Association of British Columbia has on its balance sheet an asset amount of approximately $70 million entitled "Deferred expenditures — Grants to health facilities, net of amortization." This amount is similar in nature to the Fiscal Agency Loan

Program amounts referred to above. However, when the accounts of the Health Facilities Association are consolidated with those of other government organizations, these deferred expenditure amounts are eliminated, as they are not considered to be assets of the government's summary reporting entity. We agree with this treatment.

We think this is a very significant accounting and financial reporting issue, as does the CICA, which is currently researching further the issue of "Loans and Advances Receivable" by governments.

It is our belief and recommendation that amounts recoverable through future appropriations should be reduced in value to the amounts estimated to be realizable from sources outside the financial reporting entity, through the establishment of valuation allowances.

If valuation allowances are not to be provided immediately, both the stated accounting policy and the financial statement note on the Fiscal Agency Loan Program should be expanded with explanatory information to inform the reader that some of the amounts, as specified, are only recoverable through future appropriations from the government.

Comparison of Reported Financial Statement Amounts

In recent years, financial reporting by the government of British Columbia has often been misunderstood by members of the public, the media, and special interest groups. Perhaps the leading cause of this problem has been the variety of financial statements the government annually issues to account for its fiscal affairs.

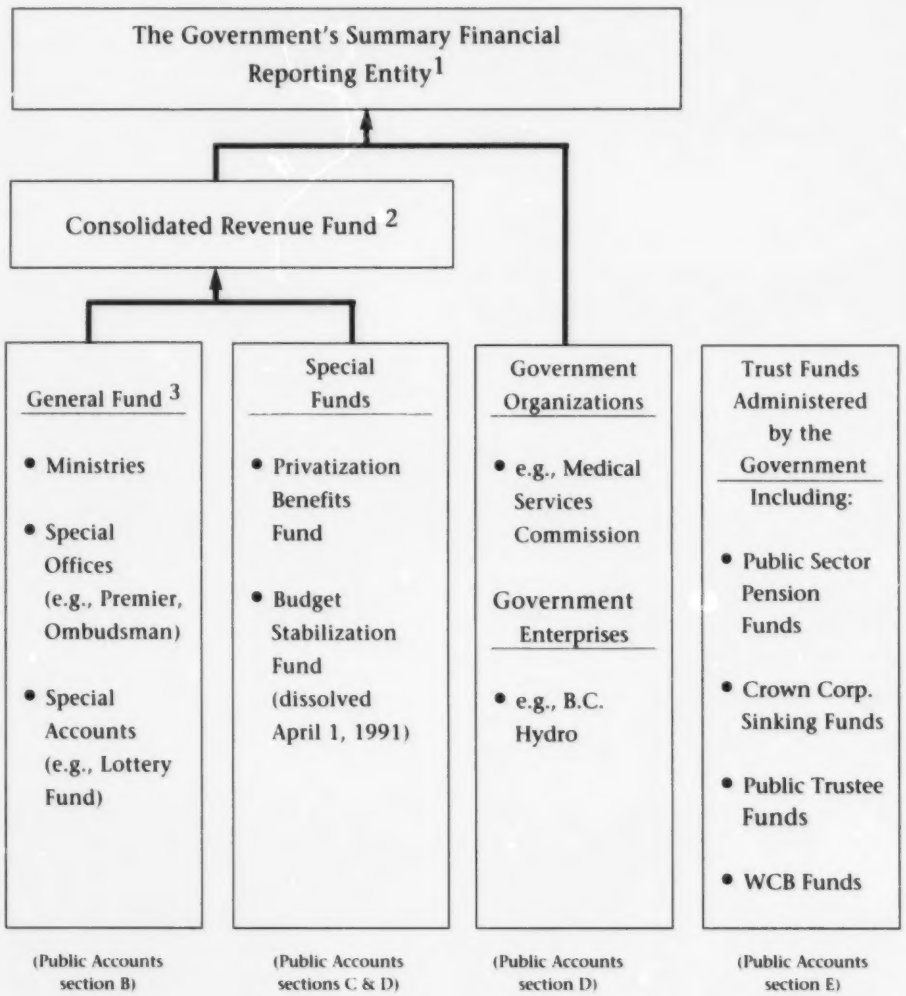
Aside from financial statements for its two special funds, the government produces three other sets of financial statements, each of which is sometimes taken by various parties to reflect the government's financial transactions and balances for a given fiscal year. These three sets of financial statements represent the:

- Summary Financial Reporting Entity
- Consolidated Revenue Fund
- General Fund

In order to help clarify the relationship between these three levels of government financial reporting, we present the following diagram (Figure 1.1), together with a summary of financial results and balances for each of the past two fiscal years (Table 1.1).

FIGURE 1.1

The Levels of Government Financial Reporting


The Government's Summary Financial Reporting Entity[1]
Consolidated Revenue Fund [2]
General Fund [3]
• Ministries
• Special Offices (e.g., Premier, Ombudsman)
• Special Accounts (e.g., Lottery Fund)
Special Funds
• Privatization Benefits Fund
• Budget Stabilization Fund (dissolved April 1, 1991)
Government Organizations
• e.g., Medical Services Commission
Government Enterprises
• e.g., B.C. Hydro
Trust Funds Administered by the Government
Including:
• Public Sector Pension Funds
• Crown Corp. Sinking Funds
• Public Trustee Funds
• WCB Funds
(Public Accounts section B)
(Public Accounts sections C & D)
(Public Accounts section D)
(Public Accounts section E)

[1] The government's Summary Financial Reporting Entity includes amounts from government owned and/or controlled organizations, and most closely meets the criteria for proper financial reporting by governments, as recommended by the Canadian Institute of Chartered Accountants.

[2] The Consolidated Revenue Fund is the fund into which all public money of the government, other than trust funds, must be paid. This fund combines amounts from the general fund and any special funds established by the Legislative Assembly.

[3] The General Fund financial information is that to which the government most often has referred in its public comments on financial accountability issues (e.g., in the Estimates, Public Accounts Digest, and Economic and Statistical Review).

TABLE 1.1

Comparative Summary of Financial Results and Balances (in $ Millions)

Source: The Government's Audited Financial Statements

	Government Summary Financial Reporting Entity		Consolidated Revenue Fund		General Fund	
	1990/91	1989/90	1990/91	1989/90	1990/91	1989/90
Net Equity (Deficiency), beginning of year	(1,603)	(2,007)	(2,667)	(3,024)	(4,689)	(4,825)
Net Revenue (Expenditure), for the year	(503)	404	(610)	357	100	136
Net Equity (Deficiency), end of year	(2,106)	(1,603)	(3,277)	(2,667)	(4,589)	(4,689)
Total Assets, end of year	12,441	11,149	9,306	7,995	8,832	7,573
Total Liabilities, end of year:						
Public Debt	12,717	11,060	10,959	9,126	10,959	9,126
Other	1,830	1,692	1,624	1,536	2,462	3,136
	14,547	12,752	12,583	10,662	13,421	12,262
Guaranteed Debt, end of year	4,362	4,878	6,227	7,134	6,227	7,134

The Budget Stabilization Fund

The Budget Stabilization Fund (the Fund) came into existence on March 31, 1988, when the *Budget Stabilization Fund Act* came into force. Three years plus a day later, on April 1, 1991, the Fund was dissolved by the *Taxpayer Protection Act.*

A brief financial perspective on the Fund's history is shown in Table 1.2.

The Fund, along with its companion fund, the Privatization Benefits Fund, have been the government's only two special funds over the past few years. Special funds are separate accounting entities within the government's Consolidated Revenue Fund. Each may have assets, liabilities, revenues, expenditures, and a fund equity distinct from the General Fund accounting entity.

These three funds—the Budget Stabilization Fund, the Privatization Benefits Fund, and the General Fund—have made up the government's Consolidated Revenue Fund since March 1988. As a consequence, any transfers

TABLE 1.2

Budget Stabilization Fund Transactions (in $ Millions)

Source: The Government's Audited Financial Statements

	Received from					
Fiscal Year	General Fund	Lottery Fund	Interest	Total	Payments to General Fund	Net Receipt (Payments)
1987/88	717	26		743		743
1988/89	592	79	77	748		748
1989/90	448		161	609	500	109
1990/91			164	164	926	(762)
1991/92					838	(838)
	1,757	105	402	2,264	2,264	

or payments between these three funds have no effect on the operating results and net equity (or deficiency) of the Consolidated Revenue Fund.

Since inception of the Budget Stabilization Fund, many people have questioned whether the balance of the Fund represented "money in the bank." The answer is, no, it did not, because the money was used for operating or debt-reduction purposes.

When the government said that it was making transfers from the General Fund to the Budget Stabilization Fund, many people assumed that, at the same time, separate bank or investment accounts were established to serve as depositories for the money. This is not what happened, however. Money transferred by the government into the Fund was, in effect, simultaneously loaned back to the General Fund at going interest rates. Thus, the only assets the Fund ever had were amounts due to it from the General Fund. There were no bank or investment accounts specifically identified with the Fund.

A continuing concern to us is the apparent lack of required authorization for the lending of money from the Budget Stabilization Fund to the General Fund, and for the payments from the General Fund to the Budget Stabilization Fund of amounts in lieu of interest. Since the enactment of section 9(3) of the *Financial Administration Act* on July 17, 1989, the approval of the Lieutenant Governor in Council has been required for any transfer from a special fund to the General Fund of money requiring repayment, and for the formula upon which any amounts paid in lieu of interest are to be determined.

There have been no orders-in-council approved by the Lieutenant Governor in Council pursuant to section 9(3) of the *Financial Administration Act*. Therefore, the $773 million of Budget Stabilization Fund monies loaned to the General Fund during the 1989/90 and 1990/91 fiscal years was not authorized as required. Similarly, the basis for determining the $325 million of amounts paid as interest by the General Fund to the Budget Stabilization Fund during those same two fiscal years did not receive the required authorization.

Accounting at the Ministry of Transportation and Highways

The Ministry of Transportation and Highways developed a new financial information system which came into use during the past fiscal year. The system failed to send complete and accurate data to the government's central accounting system and to receive the required data from it. Problems during our auditing of transactions related to this ministry system forced us to discontinue our audit work temporarily in the ministry in March 1991. At that time, the unexplained differences between ministry records and those kept by the central accounting system were substantial.

The ministry cleared some of the problems in its financial information system by the end of the 1990/91 fiscal year. However, it was not until late July 1991—four months after the end of the fiscal year—that records in the two systems were substantially reconciled. One exception to this reconciliation was the ministry's accounting for contract holdbacks.

The ministry keeps records of amounts retained as holdbacks from

progress payments on construction contracts. A summary of these records is maintained for the ministry in the central accounts of the government. At the time of our 1991 audit, the difference between the two records was over $1.5 million, indicating that some contract holdbacks had not been properly recorded in either the ministry or the central government's accounts. We examined the ministry's records and found many inaccuracies, and concluded that extensive work would be required before these records could be audited. Ministry officials have assured us that they will clear up their records by investigating all account balances.

We have recommended that the Ministry of Transportation and Highways continue its efforts to ensure the prompt recording, completeness, and accuracy of its financial information, especially that which is transmitted to the central accounting system of the government.

Change in Government Accounting Policy

In our 1991 Annual Report we commented on "Changes in Accounting Policy" which had been brought into effect by the government during its 1989/90 fiscal year.

One of the changes that concerned us was the method of treating valuation allowance changes as "non-operating" transactions. Valuation allowances are deductions made from the book value of assets, such as receivables, investments, and loans, to reduce them to their estimated realizable value. We stated in our 1991 Report that we believed the additional financial burden associated with not collecting amounts owing to the government, such as revenue receivables, loans, and advances, to be a legitimate operating cost of the government.

Upon review, the Office of the Comptroller General agreed with this opinion and recommended to Treasury Board that valuation allowance changes be reported as operating transactions.

Treasury Board subsequently approved of this revised treatment, and it was implemented in the government's accounts and financial statements for the 1990/91 fiscal year. As a result of retroactive application of this change, total 1989/90 General Fund operating expenditure was increased by $22 million. There was no change, however, to the General Fund net revenue of $136 million for that fiscal year.

This was the only major change to the government's significant accounting policies for the 1990/91 fiscal year.

Defining the Government Reporting Entity

In our 1991 Annual Report, we reported that the government had adopted the criteria recommended by the CICA for determining which organizations should be included in the government's financial reporting entity. The criteria call for including in the financial statements those organizations that are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the legislature, and that are owned or

controlled by the government. British Columbia thus became one of the leading government jurisdictions in the country to adopt the form of reporting entity considered to be the best way of providing a clear overview of the financial affairs and resources for which the government is responsible. At the same time, we expressed concern about the exclusion of certain organizations from the new form of government reporting entity.

Since then, some of the organizations that had previously been excluded have now been properly included in the government's 1990/91 Summary Financial Statements, for example:

- B.C. Health Care Risk Management Society
- B.C. Summer and Winter Games Society
- British Columbia Housing and Employment Development Financing Authority
- Credit Union Deposit Insurance Corporation of British Columbia

In our opinion, however, the following organizations also meet the government's reporting entity criteria, and accordingly should be included in the financial reporting entity:

- Advanced education institutions, including:
  - the province's public universities
  - colleges and provincial institutes
  - the Open Learning Agency
- Workers' Compensation Board

The government has stated that advanced education institutions are excluded from consolidation because they are dissimilar to other government organizations in objectives, operations, and financial reporting practices. At the same time, government financial officials have agreed that, except for the universities, these organizations meet the criteria for inclusion. According to the CICA's Public Sector Accounting Statement 4, "Regardless of the form of an organization or the nature of its activities, if the government owns or controls an organization, the government is accountable for that organization's financial affairs and the use of its resources." Our analysis leads us to believe that all of the above-noted advanced education institutions, including the universities, meet the government's reporting entity criteria.

The Workers' Compensation Board (WCB), although established and controlled by the government, is not included as a government enterprise in the Summary Financial Statements. The Insurance Corporation of British Columbia, similar in operations to the WCB, is included. The CICA's statement of public sector accounting recommendations specifically refers to both "public automobile insurance and workers' compensation" organizations as examples of government enterprises. Alberta's consolidated financial statements have included its Workers' Compensation Board for many years; Manitoba's summary financial statements now include that province's Workers Compensation Board; and the financial statements of the governments of the Yukon Territory and the Northwest Territories also include the Workers' Compensation Boards for those jurisdictions.

In British Columbia, senior officials of the WCB have advised us that they support the inclusion of their organization in the government's financial reporting entity, on the modified equity basis. Officials of the Ministry of Finance and Corporate

Relations have also agreed that the WCB meets the CICA's criteria. However, the ministry officials also state that, since the Board's role is to act as a trustee for funds it administers on behalf of its contributors, its financial information is more properly presented as a trust fund under government administration, and not as part of the government's financial reporting entity.

We believe that, rather than merely being a trustee of contributors' premiums, the WCB is in the business of administering a comprehensive workers' compensation program and, accordingly, should be included in the reporting entity as a government enterprise.

In addition to the advanced education institutions and the WCB, there is another large group of organizations that requires further consideration for inclusion in the government's financial reporting entity: the province's public hospitals.

Public hospitals in British Columbia appear to be fully accountable to the government for the management of their financial affairs and resources. This is shown by the extensive financial accountability requirements imposed on hospitals by the Minister and the Ministry of Health, as set out in the *Hospital Act*, the *Hospital Insurance Act*, and the related regulations and ministry policy directives. Therefore, in keeping with CICA public sector accounting recommendations and the government's own reporting entity criteria, we believe that the exclusion of hospitals from the reporting entity should necessarily be based on an absence of both ownership and control by the government.

Information obtained from the Ministry of Health indicates that the government does control some of the approximately 130 public hospitals in the province by virtue of having appointed all, or a majority, of their board members. While some of these appointments may be temporary, according to ministry officials, others are long term. As government does not control many of the administrative boards of the public hospitals, the matter of hospital ownership becomes very fundamental to this issue of inclusion in, or exclusion from, the government's financial reporting entity.

We believe the government should analyze further the questions of accountability, control and, in particular, ownership of the province's public hospitals before deciding whether or not to include this large group of provincial organizations in the government's summary financial reporting entity.

We are continuing to study this issue with government officials so that agreement can be reached, based on accepted criteria, as to which organizations together should compose the government's reporting entity and be reflected in its Summary Financial Statements.

Accounting for Government Transfers

In November 1990, the CICA issued Public Sector Accounting Statement 7, titled "Accounting for Government Transfers." This statement of accounting standards for the public sector contains 14 recommendation paragraphs relating to the accounting treatment of "entitlements, shared cost agreements, grants, and other government transfers."

These four types of transfers are described as follows:

- Entitlements are transfers, or payments, that a government must make if a recipient meets certain specified eligibility criteria. Such transfers are non-discretionary in the sense that both "who" is eligible to receive the transfer and "how much" is transferred are prescribed in legislation or regulations. Entitlements include amounts to be paid to individuals, such as social assistance payments, and to other governments or institutions, such as per capita payments to local governments.

- Shared cost agreement transfers are reimbursements of eligible expenditures under an agreement between a transferring government and a recipient. In this situation, the recipient must have spent money, in accordance with the terms of a previously negotiated and agreed upon contract or agreement, to be entitled to a reimbursement.

- Grants are transfers of funds that are made at the government's discretion. The government making the transfer can decide whether or not to make the transfer, the conditions to be complied with, how much money to transfer and to whom the transfer should be made. Grants include those for cultural, research, and economic development purposes.

- Other government transfers are payments that have the characteristics of more than one of the three major types of transfers referred to above. For example, some transfers to hospitals and universities may have the characteristics of both entitlements and grants. There may be, in such instances, statutory responsibility to maintain certain programs, but there is also government discretion as to amounts and methods of distributing funds to those programs.

This matter of accounting for government transfers relates to a very significant portion of government expenditures, and is very important, requiring careful government consideration. In British Columbia we have, for many years, had two major categories of government expenditures that are directly related to the types of government transfers now being proposed by the CICA for government expenditure accountability. These two expenditure categories are "grants" and "contributions," which make up fully two-thirds, or more than $11 billion, of total government expenditures in the 1990/91 fiscal year.

There are several benefits in moving to meet the new accounting treatment for recording and reporting government transfers. For example:

- The comparability of where government expenditures are going, from jurisdiction to jurisdiction, should be improved with the more consistent approach.

- Categorization of these significant government expenditures should become clearer.

- The accrual of expenditures should be provided in a more understandable and uniform manner from one fiscal period to another, and from each government organization to each transfer recipient.

In regard to the last benefit mentioned above, we encountered an extraordinary situation during our

1990/91 fiscal year audit of the government's accounts and records. This involved the payment of $2.4 million in interest on an amount ($34.5 million) which the government had not, at the time of the interest payment, recorded as a liability. The interest related to a properly approved lottery grant which had not been recorded as it had not yet met the existing government accounting policy criteria for the recording of grants. So, as a result, there was a large amount of interest calculated and paid out, relating to a liability that, in the same fiscal year, went unrecorded and undisclosed.

In our opinion, the current government accounting policy for the recording of grants is not appropriate in circumstances such as this, as it does not call for recognition in the accounts and records of all grants for which it has taken responsibility.

The Office of the Comptroller General has taken the initiative on this subject. In mid-summer 1991, it contacted the senior financial officers of all ministries, as well as Treasury Board Staff, with background information and proposals regarding the content of the CICA public sector accounting statement on government transfers. More meetings and information exchanges are planned by government officials to consider prospects for implementing the CICA recommendations.

We encourage these developments for implementing these important public sector accounting recommendations on government transfers, and look forward to improved accountability in this, the largest portion of government expenditures.

General Standards of Financial Statement Presentation for Governments

Public Sector Accounting Statement 3, issued by the CICA in 1986, includes 35 recommendations on general reporting principles and standards for the disclosure of information in summary financial statements prepared by governments.

In each of our Annual Reports since 1988 we have provided assessments of the extent to which we considered the government had complied with the recommendations in this accounting statement.

Based on the government's 1990/91 Summary Financial Statements, we currently consider that 25 of the recommendations are being fully complied with, and the remaining 10 are being partially complied with. These results are generally in line with the current status of financial reporting practices elsewhere in the country.

The public sector accounting recommendations being partially complied with are referred to below.

- *Financial statements should be issued on a timely basis.*

  The government's financial statements for the fiscal year ended March 31, 1991, were completed by the end of September 1991, and were included in the 1990/91 Public Accounts released to the public on December 30, 1991.

- *The statement of financial position should report a government's liabilities at the end of the accounting period segregated by main classifications, such as: accounts payable and accrued*

liabilities; employee pension obligations; borrowings; and loans and advances from other governments.

Unfunded pension liabilities have not been set up in the accounts, although they are referred to in a financial statement note on contingencies and commitments. Further comment on this topic appears elsewhere in this report, in the section entitled "Unfunded Pension Liability: Reservation of Audit Opinion."

- *Financial statements should disclose adequate information about the nature and terms of a government's liabilities.*

  See comments under the preceding recommendation.

- *Financial statements should disclose adequate information about the nature and terms of a government's financial assets together with any valuation allowances.*

  Repayment dates and terms for loans and advances are not disclosed.

- *Valuation allowances should be used to reflect financial assets at their net recoverable or other appropriate value.*

  Valuation allowances have not been provided with respect to amounts recoverable only through future appropriations. Further comment on this topic appears elsewhere in this report, in the section entitled "Amounts Recoverable Through Future Appropriations."

- *Financial statements should disclose information to describe a government's material financial commitments at the end of the accounting period.*

  Material financial commitments are not clearly defined by the government, leading to inconsistency in the reporting of this information in the financial statements. In those circumstances where physical asset acquisitions involve large undertakings, the estimated total multi-year project costs are not provided.

- *Financial statements should disclose information to describe a government's acquired physical assets on hand and available for use by the government at the end of the accounting period.*

  A "Physical Assets" financial statement note is now included, which reports on the government's physical assets acquired in the fiscal year. There is, however, no information reported on the government's acquired physical assets on hand and available for use. A discussion paper entitled "Accounting and Budgeting for Physical Assets" has recently been drafted by government officials on this matter.

- *The statement of revenues and expenditures should report a government's revenues of the accounting period segregated by significant types of revenues from taxes, non-tax sources and transfers from other governments.*

  Sources of the significant revenue types, such as personal and corporate income taxes, social services tax revenues, and established programs financing from the federal government, are not shown in the Summary Financial Statements.

- *Financial statements should present a comparison of the actual results with those originally forecast by the fiscal plan.*

  A partial comparison of net budget and actual results is included in a note to the financial statements.

- *Planned results should be presented on a basis consistent with that used for actual results.*

Planned results are presented in summary form in the General Fund Financial Statements. No planned results information is presented in the government's other financial statements.

Our Office supports the CICA's general standards of financial statement presentation for governments. We therefore encourage the government to implement fully the above-noted public sector accounting recommendations in its Summary Financial Statements.

The government's General Fund Financial Statements and Consolidated Revenue Fund Financial Statements would also benefit by conforming with many of the standards established in Public Sector Accounting Statement 3. However, some of the recommendations, such as disclosure of the gross amounts of revenues and expenditures, are being only partially followed in those financial statements.

We encourage the government to adopt fully the general standards of financial statement presentation for governments in all its formal sets of financial statements.

AUDIT OF PUBLIC BODY FINANCIAL STATEMENTS

AUDITOR GENERAL BRITISH COLUMBIA

AUDIT OF PUBLIC BODY FINANCIAL STATEMENTS

INTRODUCTION

The government's Summary Financial Statements for the 1990/91 fiscal year include the results of both the financial activities of central government and the operations of 41 government organizations and enterprises owned or controlled by the government.

The assets and expenditures of government organizations and enterprises amount to $19.8 billion and $8.2 billion, respectively. The audits of 24 of these public bodies, with combined assets of $16 billion and expenditures of $5.6 billion, were conducted by private sector auditors. Three small public bodies were unaudited. The other 13 public bodies, with total assets and expenditures of $2.8 billion and $1.8 billion, respectively, as well as the Liquor Distribution Branch (assets $60 million; expenditures $889 million) were audited by the Auditor General.

Five organizations were included in the Summary Financial Statements for the first time. Four of these were audited by private sector accounting firms. They are the B.C. Health Care Risk Management Society, the British Columbia Hazardous Waste Management Corporation, the B.C. Summer and Winter Games Society, and The Education Technology Centre of British Columbia. The fifth organization, the British Columbia Housing and Employment Development Financing Authority, was audited by the Auditor General. The audit of the Provincial Rental Housing Corporation was transferred from this Office to a private sector auditor during the 1990/91 fiscal year.

In addition to auditing a number of the public bodies included in the Summary Financial Statements, our Office conducted the audits of a further 21 public bodies with assets of $25.5 billion and expenditures of $20.9 billion. These include the newly created University of Northern British Columbia and two new Province of British Columbia Pooled Investment Portfolios: Fund ST3 and Active Canadian Equity Fund.

A list of the public bodies audited by the Auditor General is included in Appendix D of this report. Entities whose financial statements are audited by other auditors, and whose financial statements are included in the Public Accounts, are listed in Appendix E.

AUDITS OF PUBLIC BODIES

Both the management and the auditors of a public body have responsibilities associated with the public body's financial statements. Management is responsible for determining the accounting and disclosure policies appropriate for the organization's activities, and for establishing the form and content of its financial statements. The auditor's responsibility is to express an opinion as

to whether the financial statements present fairly the financial position and operating results of the organization, in accordance with appropriate accounting principles.

In determining an organization's accounting policies, management selects accounting principles which are considered appropriate for the organization. In this regard, we commented in our 1991 Annual Report on the work of the Accounting Standards Committee and the Public Sector Accounting and Auditing Committee of the CICA in developing generally accepted accounting standards for non-profit organizations, including those entities operating in the public sector. These standards were developed with the active participation of officials of non-profit organizations, as well as their auditors. They are intended to bring consistency to the financial reporting of non-profit organizations, and so provide more meaningful and comparable information by which each organization may be measured.

Many public sector organizations adopted these standards in preparing their financial statements for the 1991 fiscal year. Others, however, had theoretical and practical difficulties in adopting certain of the recommendations, and so did not fully apply them in their 1991 general purpose financial statements.

Many of the difficulties related to a significant concept underlying the development of these standards: accrual accounting. This concept requires, among other things, that the financial statements for an accounting period reflect the full cost of providing the services delivered by an organization in that period. Thus, the financial statements should include the full cost of such expenses as vacation pay and retirement benefits incurred up to the date of the financial statements, even if they have not actually been paid as at that date.

Accrual accounting had not, in the past, been applied to this extent by many public sector non-profit organizations, and in particular by colleges, universities and other educational institutions in British Columbia as well as in the rest of Canada. Instead, for a number of years, many of these organizations followed bases of accounting which emphasized the matching of expenditures with the funds received to finance them.

In some cases, these bases had been specified in government financial reporting directives, such as those issued to colleges in British Columbia by the Ministry of Advanced Education, Training and Technology. In other cases, the organizations used accounting guidelines provided by such groups as the Canadian Association of University Business Officers. These guidelines had been developed to address the absence, at that time, of generally accepted accounting principles for the organizations concerned. In many respects, the guidelines were oriented toward presenting financial information on a funds-flow basis of accounting, rather than on the basis of measuring the full cost of providing services.

It followed that, in 1991, a number of non-profit organizations in the public sector across Canada had difficult choices to make concerning the content of their financial statements. Many of those that decided to comply with accounting directives from governmental funding and regulatory agencies received auditors' opinions on their 1991 financial statements which contained reservations concerning their failure to comply with generally accepted accounting principles. Included in these organizations were

most colleges in British Columbia which, in following government directives as to their basis of financial reporting, did not fully provide for costs of vacation pay, sick leave and debenture interest to March 31, 1991.

Also receiving audit opinions with reservations on their 1991 financial statements were a number of Canadian universities (including one in British Columbia) which, while working to resolve certain issues relating to the new standards, had continued in the meantime to follow their traditional basis of accounting.

In response to the developments taking place in non-profit accounting, ministries of the government of British Columbia have been reviewing the financial reporting required of non-profit organizations which are accountable to them for the use of government resources. In some cases, such as for hospitals, changes in reporting requirements have been made with the goal of achieving consistency with generally accepted accounting principles . In other cases, such as for colleges, work is continuing in order to resolve certain difficulties identified in implementing the recommendations of the CICA.

We encourage the government's continuing efforts to harmonize its financial information requirements with generally accepted accounting principles for non-profit organizations in the public sector.

British Columbia Hydro and Power Authority Preferred Funding

In our 1989 Annual Report, we commented on the different treatments given by the Province and the British Columbia Hydro and Power Authority (B.C. Hydro) of a long-term advance the Province made to B.C. Hydro in the 1988/89 fiscal year. The $235 million in "preferred funds" was provided to B.C. Hydro by the Province through its Fiscal Agency Loan Program, a program under which the Province borrows money and then lends it to a government body.

The status of the differing financial statement treatments previously referred to remains unchanged. The government includes the advance in its financial statements as a fiscal agency loan receivable; B.C. Hydro continues to show the amount in its financial statements as "Preferred Funding," separate from long-term debt and other liabilities. However, payments by B.C. Hydro to the Province toward the cost of providing the funds are now referred to as "Distributions on the Preferred Funding" instead of "Dividend" as stated in B.C. Hydro's prior years statements. As B.C. Hydro believes the preferred funding to be in the nature of equity rather than debt, it has not established the related sinking fund as required by section 42(15) of the *Hydro and Power Authority Act.*

In September 1991, after the approval of B.C. Hydro's financial statements for the fiscal year ended March 31, 1991, the Accounting Standards Committee of the CICA issued an exposure draft titled "Financial Instruments." This draft clarifies what might be considered the liabilities or, alternatively, the equity of an organization. Although the recommendations made in the exposure

draft have not yet become a required standard, they provide a clearer indication as to where the accounting profession stands on this issue. Paragraph .040 of the draft states that:

> *The classification of a financial instrument, or its component parts, as between liabilities and equity should reflect the substance of the contractual arrangement on initial recognition. That classification should be consistent with the definitions of a financial liability and an equity instrument.*

The definitions of a financial liability and an equity instrument that have been adopted by the exposure draft are as follows:

> *(a) A financial liability is any liability that is a contractual obligation:*
>
> *i) to deliver cash or another financial asset to another entity; or*
>
> *ii) to exchange financial instruments with another entity under conditions that are potentially unfavorable.*
>
> *(b) An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.*

The terms of agreement of the advance to B.C. Hydro call for a scheduled settlement and redemption date and give the Province the ability to require settlement or redemption. We believe these conditions meet the definition of a financial liability and not of an equity instrument.

Therefore, we recommend that the Province and B.C. Hydro again review the funding transactions to confirm the nature, the appropriate financial statement presentation, and the need for a sinking fund.

Unrecorded Lottery Grant Payments

During the 1990/91 fiscal year, the British Columbia Lottery Corporation (the Lottery Corporation), the Crown agency responsible for the conduct of lotteries in the province, made payments totalling $6.6 million directly to various charitable and community organizations.

The payments represented a portion of the proceeds from the sale of "Breakopen" tickets, a mini-lottery game marketed and promoted by the corporation. Retailers of the tickets, besides earning commissions on their sales, were allowed to designate a charitable or community organization to be the recipient of a further payment based on the value of tickets sold. Frequently the retailer was itself a charitable or community organization, and accordingly would also be the recipient of this additional payment.

Since these payments were actually grants, rather than sales commissions, they were treated as an allocation of net income in the accounts of the Lottery Corporation, and described as "Paid on behalf of the Province of British Columbia" in its audited financial statements. None of these transactions was recorded in the Lottery Fund special account or elsewhere in the government's accounts.

The *Lottery Act* provides that "all proceeds from the conduct and operation of lotteries by the Province" shall be paid into a special account called the Lottery Fund, and that payments of monies out of the fund shall be made and reported in a certain manner. The Lottery Fund special account forms part of the province's Consolidated Revenue Fund.

Our concerns about this matter are threefold. First, the grant payments were made by the Lottery Corporation, apparently in contradiction of the *Lottery Act* and without the normal review process being applied by the responsible government ministry. This process is designed to ensure that grants are made only to qualified charities and community organizations. Second, the payments were not recorded and reported as Lottery Fund special account transactions. And third, details of the grant payments were not publicly reported, as would be the case if they had been handled through the Lottery Fund special account.

We understand that the Lottery Corporation has amended its accounting treatment to record these grants as selling commissions. Notwithstanding the accounting treatment, the payments continue to be made, and the three issues still exist.

We recommend that the Lottery Corporation and the Ministry of Government Services take the necessary steps to ensure future compliance with both the *Lottery Corporation Act* and the *Lottery Act* in regard to these grant payments.

Statutory Pension Plans

In last year's Annual Report, we commented on certain funding and financial reporting issues concerning pension plans maintained according to acts of the British Columbia legislature. These statutory plans, consisting of the Public Service Superannuation Plan, the Municipal Superannuation Plan, the Teachers' Pensions Plan, and the College Pension Plan, have accumulated unfunded liabilities totalling approximately $3 billion (Table 1.3).

For this report, we have summarized and updated the issues discussed last year. These include the funding of the pension plans, inflation indexing, financial reporting for the pension plans, and valuation of the MLA Superannuation Account.

Funding the Pension Plans

The Act establishing the Public Service Superannuation Plan makes the government responsible for guaranteeing the payment of pensions should there be a shortfall of funds available in any year to pay pensions. The *Pension (College) Act* also provides for a guarantee, subject to the approval of the Lieutenant Governor in Council. The Acts governing the Teachers' and the Municipal plans do not involve the government as guarantor. However, since the government has sole responsibility for establishing plan contribution rates, we believe there may be an expectation by those concerned that the government would also fund deficiencies in these two plans, even though it has no statutory obligation to do so. These deficiencies total approximately $1.7 billion.

The government, as administrator, has a trustee responsibility for all statutory plans. This responsibility

implies a duty to ensure that funding of statutory plans through employer and employee contributions is sufficient to maintain the pension plans' finances, and that funding is done in an orderly manner. The government's current funding policy for these plans is to maintain the unfunded liabilities at a constant percentage of payrolls.

To determine the financial condition of the pension plans, independent actuaries perform periodic valuations of the future benefits to be paid under the plans and of the assets that will be available to pay the benefits. Where the present value of prospective pension benefits exceeds the present value of both estimated future contributions and existing fund assets, an unfunded actuarial liability is said to exist. An actuary may recommend changes in the existing contribution rates if a funding problem is perceived.

Our review of recent actuarial valuations of each of the statutory pension plans indicates that, except for the Public Service Superannuation Plan, the actuaries conclude that the current contribution rates are somewhat less than those required under the funding policy approved by the government (see Table 1.3). During the periods covered by these valuations, the absolute amounts of the unfunded liabilities of the Municipal and Teachers' Plans have risen significantly. The actuaries of these two plans have recommended that the contribution rates be increased to at least those required under the government funding policy. The actuary for the College Pension Plan has recommended that contribution rates for that plan also be increased, even though there has been a recent decrease in the unfunded liability of the plan.

We are concerned that, to date, the government has not adopted the actuaries' recommendations to increase contributions to the plans, including increases to the level required by the government's own policy for funding. The Teachers' and Municipal Plans are of particular concern because there is no statutory guarantee provision should the plans fail. Although the actuaries believe that, for all plans, there is little risk of plan failure, it remains that inadequate funding today may place an unfair cost burden on future contributors and taxpayers.

Inflation Indexing

Each statutory pension plan provides basic pension benefits as well as inflation indexing. To fund these benefits, member and employer contributions include both a basic component and an inflation indexing component. Amounts contributed for inflation indexing are accumulated in Inflation Adjustment Accounts. Legislation covering each plan states that indexing shall only be paid if there is money available in these special accounts.

We believe that most plan members assume they are guaranteed inflation indexing following retirement. Because, in fact, there is no guarantee in the statutory plans that inflation indexing will be paid, we recommend that the government regularly advise plan members on the current status of the special accounts.

Financial Reporting for Pension Plans

In March 1990 the CICA issued accounting recommendations for pension plans, to be effective for the fiscal years beginning after July 1, 1990. The recommendations include a requirement for certain information which is not presently disclosed in the financial statements of the various pension plans. The CICA believes that

the newly required disclosures provide important information for plan members. In addition, it has recommended the use of a particular actuarial method for calculating the accumulated unpaid benefits earned by plan members.

During the past year, the Superannuation Commission has made some changes to the financial statements to comply with the recommendations of the CICA. However, further changes to the content and format of the statements will be required this year to fully comply with the CICA standards, particularly with respect to the calculation and disclosure of information about benefits earned.

Actuarial Valuation of the Members of the Legislative Assembly (MLA) Superannuation Account

The *Legislative Assembly Allowances and Pension Act* does not require actuarial valuations of the MLA Superannuation Account. Accordingly, no such valuation has been performed to date.

It is possible that an unfunded liability exists with respect to pension benefits earned to date by MLAs. In the interest of public accountability, we recommend that actuarial valuations of the account be carried out periodically, and that the results of such valuations be disclosed in the Public Accounts.

TABLE 1.3

Summary of Public Service Statutory Pension Plans

Sources: Plan Financial Statements and Actuarial Reports

Statutory Plan	Unfunded Liability				Contribution Rates[1]
	Prior Valuation (Deficit)	Latest Valuation (Deficit)	Latest Valuation Date	Change Decrease (Increase)	Additional Contributions Recommended by Actuary
	$	$		$	%
Public Service Superannuation Plan	(456,062,000)	(437,875,000)	Mar.31,1990	18,187,000	.25
Municipal Superannuation Plan	(855,352,000)	(1,082,186,000)	Dec.31,1988	(226,834,000)	1.10
Teachers' Pensions Plan	(1,392,116,000)	(1,605,045,000)	Dec.31,1987	(212,929,000)	1.11
College Pension Plan	(60,891,000)	(29,814,000)	Aug.31,1988	31,077,000	2.14
MLA Superannuation Account	**[2]	**	**	**	n/a

1 Combined employer and employee rates.

2 (**) No valuation performed. Amounts contributed are transferred to the Public Service Superannuation Plan (PSSP) when MLAs retire. Any shortfall between amounts held in the account and the benefits earned by MLAs at the retirement date is paid by the government into the PSSP. Pension benefits are paid to MLAs through the PSSP.

APPENDICES

APPENDIX A

AUDITOR GENERAL ACT

INTERPRETATION

1. In this Act

"ministry" means a ministry or branch of the executive government of the Province;

"public body" means

(a) an agency of the Crown;

(b) a board, commission, council or other body of persons, whether or not incorporated, all the members of which or all the members of the board of management or board of directors of which are appointed by an Act, an order of the Lieutenant Governor in Council or a minister of the Crown;

(c) a corporation, more than 50% of the shares or ownership of which is, directly or indirectly, vested in the Crown; or

(d) a corporation, association, board, commission or society to which a grant or advance of public money is made, or the borrowings of which may be guaranteed by the Crown under the authority of any Act;

and all other words have the same meaning as they have in the *Financial Administration Act.*

APPOINTMENT, SALARY, TERM AND PENSION

2. (1) The Lieutenant Governor shall, on the recommendation of the Legislative Assembly, appoint as an officer of the Legislature, a person as Auditor General to exercise the powers and perform the duties assigned to him under this Act.

(2) The Legislative Assembly shall not recommend a person to be appointed as Auditor General unless a special committee of the Legislative Assembly has unanimously recommended to the Legislative Assembly that the person be appointed.

(3) The Auditor General shall be appointed for a term of 6 years and he may be reappointed in the manner provided in this section for further 6 year terms.

(4) The Auditor General shall be paid, out of the consolidated revenue fund, a salary in an amount equal to the salary paid to the chief judge of the Provincial Court of British Columbia.

(5) The Auditor General shall be reimbursed for reasonable travelling and out of pocket expenses necessarily incurred by him in discharging his duties.

(6) Subject to subsections (7) to (10.1), the *Pension (Public Service) Act* applies to the Auditor General.

(7) An Auditor General who retires, is retired or removed from office after at least 10 years' service shall be granted an annual pension payable on or after attaining age 60.

(8) Where an Auditor General who has served at least 5 years is removed from office by reason of a physical or mental disability, section 19 of the *Pension (Public Service) Act* applies and he is entitled to a superannuation allowance commencing on the first day of the month following his removal.

(9) Where an Auditor General who has served at least 5 years dies in office, section 20 of the *Pension (Public Service) Act* applies and the surviving spouse of the Auditor General is entitled to a superannuation allowance commencing on the first day of the month following the death.

(10) When calculating the amount of a superannuation allowance under subsection (7), (8) or (9),

(a) each year of service as Auditor General shall be counted as 1 1/2 years of pensionable service.

(b) [Repealed 1988-52-1.]

(10.1) Subsection (10) does not apply to the calculation under section 6(5) of the *Pension (Public Service) Act*.

(11) Before beginning to perform his duties, the Auditor General shall take an oath before the Clerk of the Legislative Assembly that he will faithfully and impartially exercise the powers and perform the duties of his office.

RESIGNATION, REMOVAL OR SUSPENSION

3. (1) The Auditor General may at any time resign his office by written notice to the Speaker of the Legislative Assembly or to the Clerk of the Legislative Assembly if there is no Speaker or if the Speaker is absent from the Province.

(2) On the recommendation of the Legislative Assembly, based on cause or incapacity, the Lieutenant Governor shall

(a) suspend the Auditor General, with or without salary; or

(b) remove the Auditor General from his office

in accordance with the recommendation.

(3) Where the Auditor General is suspended or removed from office or the office of Auditor General becomes vacant, the Lieutenant Governor shall, on the recommendation of the Legislative Assembly, appoint an acting Auditor General to hold office until the end of the period of suspension of the Auditor General or until an Auditor General is appointed under this Act, as the case may be.

(4) When the Legislature is not sitting and is not scheduled to sit within the next 5 days, the Lieutenant Governor in Council may, with or without salary, suspend the Auditor General from his office for cause or incapacity but the suspension shall not continue in force after the expiry of 20 sitting days.

ACTING AUDITOR GENERAL

4. (1) Where

(a) the Auditor General is suspended or removed or the Office of Auditor General becomes vacant when the Legislature is sitting but no recommendation under this Act is made by the Legislative Assembly before the end of that session; or

(b) the Auditor General is suspended or the office of Auditor General becomes vacant when the Legislature is not sitting,

the Lieutenant Governor in Council may appoint an acting Auditor General.

(2) The appointment of an acting Auditor General under this section terminates

(a) on the appointment of a new Auditor General under section 2;

(b) at the end of the period of suspension of the Auditor General; or

(c) immediately after the expiry of 20 sitting days after the day on which he was appointed

which ever the case may be and whichever occurs first.

STAFF

5. (1) The Auditor General may appoint, in accordance with the Public Service Act, a deputy Auditor General and other employees necessary to enable him to perform his duties.

(2) For the purpose of the application of the *Public Service Act* to this section, the Auditor General shall be deemed to be a deputy minister.

(3) Notwithstanding the *Public Service Act*, the Auditor General may engage and retain specialists and consultants as may be required to carry out his functions, and may determine their remuneration.

(4) [Repealed 1985-15-19, effective March 2, 1987 (B.C. Reg. 248/86).]

(5) The Auditor General may make a special report to the Legislative Assembly where

(a) the amounts and establishment provided for the office of the Auditor General in the estimates; or

(b) the services provided to him by the Government Personnel Services Division, are, in his opinion, inadequate to enable him to fulfil his duties.

EXAMINATION OF ACCOUNTS

6. (1) The Auditor General shall examine in the manner he considers necessary the accounts and records of the government relating to the consolidated revenue fund and all public money, including trust and special funds under the management of the government, and to public property.

(2) Notwithstanding any other Act, the Auditor General

(a) shall be given access to the records of account and administration of any ministry; and

(b) may require and receive from any person in the public service, information, reports and explanations necessary for the performance of his duties.

REPORT ON FINANCIAL STATEMENTS

7. (1) The Auditor General shall report annually to the Legislative Assembly on the financial statements of the government, including those required by section 8(2) of the *Financial Administration Act*, respecting the fiscal year then ended.

(2) The report shall form part of the public accounts and shall state

(a) whether he has received all of the information and explanations he has required; and

(b) whether in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the government in accordance with the stated accounting policies and as to whether they are on a basis consistent with that of the preceding year.

(3) Where the report of the Auditor General does not contain the unqualified opinion required under this section, the Auditor General shall state the reasons why.

ANNUAL REPORT

8. (1) The Auditor General shall report annually to the Legislative Assembly on the work of his office and call attention to anything resulting from his examination that he considers should be brought to the attention of the Legislative Assembly including any case where he has observed that

(a) accounts have not been faithfully and properly kept or

public money has not been fully accounted for;

(b) essential records have not been maintained;

(c) the rules, procedures or systems of internal control applied have been insufficient

(i) to safeguard and protect the assets of the Crown;

(ii) to secure an effective check on the assessment, collection and proper allocation of the revenue;

(iii) to ensure that expenditures have been made only as authorized; or

(iv) to ensure the accuracy and reliability of the accounting data; or

(d) public money has been expended for purposes other than for which it was appropriated by the Legislature.

(2) In the report the Auditor General may also include an assessment

(a) as to whether the financial statements of the government are prepared in accordance with the most appropriate basis of accounting for the purpose of fair presentation and disclosure; or

(b) as to whether any program being administered by a ministry is being administered economically and efficiently.

TRIVIAL MATTERS

9. The Auditor General need not report to the Legislative Assembly on any matter he considers immaterial or insignificant.

SUBMISSION OF ANNUAL REPORT

10. (1) A report of the Auditor General to the Legislative Assembly shall be submitted by him through the Minister of Finance.

(2) On receipt of a report of the Auditor General, the Minister of Finance shall lay the report before the Legislative Assembly as soon as possible.

(3) If the Minister of Finance does not lay the report before the Legislative Assembly on the first sitting day following the receipt of the report by him, the Auditor General shall transmit the report to the Speaker and the Speaker shall lay the report before the Legislative Assembly.

(4) On being laid before the Legislative Assembly, the annual report of the Auditor General shall be referred to the Public Accounts Committee of the Legislative Assembly.

SPECIAL REPORT

11. The Auditor General may at any time make a special report to the Legislative Assembly on a matter of primary importance or urgency that, in his opinion, should not be deferred until he makes his annual report.

OTHER REPORTS

12. The Auditor General may at any time make a report to the Minister of Finance, the Treasury Board, the Lieutenant Governor in Council, or any public officer on any matter that in the opinion of the Auditor General should be brought to his or their attention.

SPECIAL ASSIGNMENTS

13. The Auditor General may undertake special assignments at the request of the Lieutenant Governor in Council, but he is under no obligation to carry out any requested assignment if, in his opinion, it would interfere with his primary responsibilities.

STAFF IN MINISTRIES

14. (1) The Auditor General may station in any ministry a person employed in his office to enable him to

more effectively carry out his duties, and the ministry shall provide the necessary office accommodation for a person so stationed.

(2) The Auditor General shall require every person employed in his office who is to examine the accounts or the administration of a ministry pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that ministry.

INQUIRY POWERS

15. The Auditor General may examine any person on oath on any matter pertaining to his responsibilities and for that examination the Auditor General has all the powers, protection and privileges of a commissioner under sections 12, 15 and 16 of the *Inquiry Act*.

PUBLIC BODIES

16. (1) Notwithstanding any other Act, where the Auditor General is not the auditor of a public body,

(a) the public body shall, on the request of the Auditor General, supply the Auditor General with a copy of all financial statements and reports relating to the public body;

(b) the auditor of the public body shall, on the request of the Auditor General, make available to the Auditor General, within a reasonable time, all working papers, reports and other documents in his possession relating to the public body; and

(c) the Auditor General may conduct examinations of the records and operations of the public body he considers necessary or advisable to carry out his duties under this Act.

(2) Notwithstanding any other Act, the Auditor General

(a) shall be given access to the records of account and administration of any public body; and

(b) may require and receive from any officer or employee of a public body information reports and information necessary for the performance of his duties.

ELIGIBILITY AS AUDITOR

17. Notwithstanding any other Act, the Auditor General is eligible to be appointed the auditor, or a joint auditor, of a Crown corporation, Crown agency or public body.

TRANSFER OF AUDIT DUTIES

18. The Lieutenant Governor in Council may transfer to the Auditor General the duty imposed by any Act on a person to conduct an audit.

AUDIT OF ACCOUNTS OF AUDITOR GENERAL

19. (1) The Treasury Board shall appoint an auditor to audit the accounts of the office of Auditor General annually.

(2) The auditor appointed under this section shall certify the accounts of the office of Auditor General that he finds to be correct and shall report the result of his audit to the Speaker, who shall present it to the Legislative Assembly.

APPROPRIATION

20. Money required for the purposes of this Act shall be paid out of money authorized by an Act of the Legislature.

APPENDIX B

MISSION STATEMENT

The formal mandate of the Auditor General has been prescribed by the Legislative Assembly in the *Auditor General Act*, a copy of which is presented in Appendix A to this report.

Based on the requirements of that Act, and reflecting the concepts and practices that have evolved over time, a Mission Statement has been developed to concisely describe the role of the Auditor General, and the means employed to carry out this role.

MISSION STATEMENT

The Auditor General serves the citizens of the Province by providing independent opinions and evaluations on the financial and administrative management of the government and its related entities in the public sector. As well, he promotes improvement in public sector accountability.

To fulfill his responsibilities, the Auditor General has established a professional office committed to the principles of objectivity, integrity and service to the public.

While this statement is purposely brief, amplification of its various aspects will help the reader better understand its message.

The phrase, *"serves the citizens of the Province,"* denotes the concept of public service and recognizes the breadth of the audience interested in the Auditor General's work, including Members of the Legislative Assembly, the government and its administration, the taxpayer, and others seeking information about the financial and administrative affairs of the government.

The statement continues, *"by providing independent."* This reflects the fact that the Auditor General is an officer of the legislature. His independence from the government of the day and the public service is essential to the effective and unbiased work of the Office.

The phrase, *"opinions and evaluations on the financial and administrative management of the government,"* describes the major responsibility of the Office of the Auditor General. The *Auditor General Act* requires the Auditor General to examine the accounts and records of the government, and to express his opinion on the government's annual financial statements. In this respect the Auditor General's role is like that of accounting firms who audit the books of private sector companies. Following the collection and spending of public funds, the Auditor General examines the government's financial transactions and reports his findings to the Legislative Assembly. Like private sector auditors, he expresses his opinion on the financial information presented to him by the government—the traditional "attest" audit function.

The Act also calls on the Auditor General to comment in an annual report to the Legislative Assembly on any matter arising from his work that he considers to be of interest to the Assembly. This may deal with such matters as the improper use of public funds, failure to comply with legislative and related authorities, expenditures not authorized by the legislature, and other irregularities. It may also deal with his evaluations as to whether tax dollars have been economically and efficiently spent for the purposes intended.

The Statement continues, *"and its related entities in the public sector."* This refers to the Auditor General's role with respect to provincial Crown corporations and other public bodies. For those public bodies of which he is the appointed auditor, the Auditor General's responsibilities roughly parallel those undertaken in the audit of the government's accounts. For those public bodies audited by others, the Auditor General has an overseeing role which responds to the various needs of the Legislative Assembly.

The next sentence states, *"As well, he promotes improvement in public sector accountability."* It refers to the Auditor General's overall concern with disclosure and accountability throughout the public sector. In this regard, whether through his Annual Report, his dealings with the Public Accounts Committee of the Legislative Assembly, or his direct contact with public officials and administrators, the Auditor General actively furthers the concept of accountability.

The final phrase of the Mission Statement reads, *"a professional office committed to the principles of objectivity, integrity and service to the public."* The concept of professionalism emphasized here implies adherence to a set of standards that are professionally recognized. Since its inception, the Office of the Auditor General has operated as a practicing accounting office as defined by the Institute of Chartered Accountants of British Columbia, and has met all the requirements of that Institute associated with this status. Staff members of the Office are required to have either a professional accounting designation or special qualifications in other disciplines, or to be pursuing studies toward a professional designation.

APPENDIX C

OFFICE OF THE AUDITOR GENERAL: AUDIT OBJECTIVES AND METHODOLOGY

Audit work performed by the Office of the Auditor General falls into three broad categories:

- Financial statement auditing
- Value-for-money auditing
- Compliance, control, and accountability auditing

Each of these categories has certain objectives that are expected to be achieved, and each employs a particular methodology to reach those objectives. The following is a brief outline of the objectives and methodology of each audit category.

FINANCIAL STATEMENT AUDITING

PURPOSES OF FINANCIAL STATEMENT AUDITS

An independent audit of financial statements has several purposes. The main one is to add credibility to the statements, thus enhancing their value to the ultimate users. Evidence of this is provided in the form of an Auditor's Report which accompanies the financial statements, and in which the auditor expresses his opinion as to whether the statements are presented fairly in accordance with an appropriate, disclosed basis of accounting.

Another benefit of such an annual audit is that its very existence provides a constant stimulus to an organization to ensure sound financial management. In addition, the auditor is frequently able to provide helpful assistance and advice to an organization as a direct result of findings developed during the audit.

REPORTING THE RESULTS OF AUDITS

As noted above, a financial statement audit results in the issuance of a report on those statements. These reports are addressed to whomever appointed or engaged the auditor to do the work, such as the organization's owner, the shareholders, or some appropriate representative of those with a stake in the organization. In the case of the government financial statements examined by this Office, the Auditor General addresses his reports to the Legislative Assembly. The reports issued on the statements of Crown corporations and other government organizations are addressed to various parties, according to applicable appointment or engagement arrangements.

The Auditor's Report constitutes the auditor's professional opinion on the financial statements, and usually consists of three basic paragraphs.

The first paragraph identifies the financial statements that have been audited. It also points out that the statements are the responsibility of management, and that the auditor's

responsibility is to express an opinion on the statements.

Next is the "scope" paragraph, which describes the nature and extent of the auditor's work, and the degree of assurance that the auditor's report provides. Also, it refers to generally accepted auditing standards and describes some of the important procedures which the auditor undertakes.

The third paragraph, frequently referred to as the "opinion" paragraph, contains the auditor's conclusion based on the audit conducted.

If the auditor is unable to provide an opinion without reservation on the financial statements, he must then incorporate another paragraph in the report. In that paragraph, which would appear between the scope and the opinion paragraphs, the auditor advises the reader as to the reasons for the reservation, and the effects or possible effects on the financial statements of the matter giving rise to the reservation.

Finally, should the auditor wish to present additional information or explanations concerning the financial statements—information that does not constitute a reservation of his audit opinion—he may add a further, explanatory paragraph to his report.

Auditing Standards

When undertaking examination procedures for the purpose of expressing an opinion on financial statements, auditors are expected to comply with established professional standards, referred to as generally accepted auditing standards. The principal source of these standards in Canada is the Canadian Institute of Chartered Accountants (CICA).

Generally accepted auditing standards consist of three main areas. There are general requirements that the auditor be properly qualified to conduct and report on an audit, and that he carry out his duties with an objective state of mind. Further standards outline the key technical elements to be observed in the conduct of an audit. Finally, reporting standards set out the essential framework of the auditor's report on the financial statements.

In addition to these broad standards, the CICA makes other, more detailed, recommendations related to matters of auditing practice. As well, the CICA, through its Public Sector Accounting and Auditing Committee, makes recommendations which relate specifically to the audit of entities in the public sector.

Application of the Standards

We carry out extensive examinations of the accounts and records maintained by the ministries and central agencies of government, and by the Crown corporations and other public bodies of which the Auditor General is the auditor.

Also, with respect to Crown corporations which are audited by other auditors and which form part of the government's Summary Financial Statements, we obtain various information and assurances from those other auditors which enable us to rely on their work in conducting our audit of the government's accounts. This information is supplemented by periodic reviews by our staff of those auditors' working paper files and audit procedures.

Throughout these examinations, the Office of the Auditor General complies with all prescribed auditing standards in the conduct of its work. It must be

realized, however that the Auditor General's opinion on a set of financial statements does not guarantee the absolute accuracy of those statements. In the audit of any large organization it is neither feasible nor economically desirable to examine every transaction. Instead, a sampling of transactions is carried out by the auditor in a manner designed to provide reasonable assurance that any errors contained in the financial statements are not, in total, significant enough to mislead the reader as to the organization's financial position or results of operations.

When determining the nature and extent of work required to provide such assurance, we consider two main factors: *materiality*, which is expressed in dollar terms, and *overall audit assurance*, expressed in percentage terms.

- *Materiality* relates to the aggregate dollar amount which, if in error, would affect the substance of the information reported in the financial statements, to the extent that the reader's judgment, based on the information contained in the statements, would be affected.
- *Overall audit assurance* represents, in percentage terms, how certain the auditor wants to be that his audit will discover errors in the financial statements which, in total, exceed materiality.

In planning our audits of financial statements, we exercise professional judgment in determining the application of these two key factors.

VALUE-FOR-MONEY AUDITING

PURPOSE OF VALUE-FOR-MONEY AUDITS

Value-for-money audits look at how organizations have given attention to value for money—to economy, efficiency and effectiveness.

The concept of value-for-money auditing is based on two principles. The first is that public business should be conducted in a way that makes the best possible use of public funds. The second is that people who conduct public business should be held accountable for the prudent and effective management of the resources entrusted to them.

THE NATURE OF VALUE-FOR-MONEY AUDITS

A value-for-money audit has been defined as:

> *. . . the independent, objective assessment of the fairness of management's representations on performance, or the assessment of management systems and practices, against criteria, reported to a governing body or others with similar responsibilities.*

This definition recognizes that there are two primary forms of reporting used in value-for-money auditing. The first—referred to as attestation reporting—is the provision of audit opinions on reports that contain representations by management on matters of economy, efficiency and effectiveness.

The second—referred to as direct reporting—is the provision of more than just auditor's opinions. In the absence of representations by management on matters of economy, efficiency and effectiveness, auditors, to fulfil their mandates, gather essential information with respect to management's regard for value for money and include it in their own reports along with their opinions. In effect, the audit report becomes a partial substitute for information that might otherwise be provided by management on how they have

discharged their essential value-for-money responsibilities.

The attestation reporting approach to value-for-money auditing has not been used yet in British Columbia because the organizations we audit have not been providing comprehensive management representations on their value-for-money performance. Until recently, the management representations approach to value for money was not practicable. The need to account for the prudent use of taxpayers' money had not been recognized as significant issue and, consequently, there was neither legislation nor established tradition that required public sector managers to report on a systematic basis as to whether they had spent taxpayers' money wisely. In addition, there was no generally accepted way of reporting on the value-for-money aspects of performance.

Recently, however, considerable effort has been devoted to developing acceptable frameworks to underlie management reports on value-for-money performance, and public sector organizations have begun reporting on value-for-money performance through management representations. We believe that management representations and attestation reporting are the preferred way of meeting accountability responsibilities and are actively encouraging the use of this model in the British Columbia public sector.

Because all of our value-for-money audits are conducted now using the direct reporting model, the description that follows explains that model.

Our value-for-money audits are not designed to question government policies. Nor do they assess program effectiveness. The *Auditor General Act* directs the Auditor General to assess whether the programs implemented to achieve government policies are being administered economically and efficiently. Our value-for-money audits also evaluate whether members of the Legislative Assembly and the public are provided with appropriate accountability information about government programs.

When undertaking value-for-money audits, auditors can look either at results, to determine whether value-for-money is actually achieved, or at managements' processes, to determine whether those processes should ensure that value is received for money spent.

Neither approach alone can answer all the legitimate questions of legislators and the public, particularly if problems are found during the audit. If the auditor assesses results and finds value for money has not been achieved, the natural questions are "Why did this happen?" and "How can we prevent it from happening in future?" These are questions that can only be answered by looking at the process. On the other hand, if the auditor looks at the process and finds weaknesses, the question that arises is "Do these weaknesses result in less than best value being achieved?" This can only be answered by looking at results.

We try, therefore, to combine both approaches wherever we can. However, as acceptable results information and criteria are often not available, our value-for-money audit work frequently concentrates on managements' processes for achieving value for money.

We seek to provide fair, independent assessments of the quality of government administration. We conduct our audits in a way that enables us to provide positive assessments where they are warranted. Where we cannot

provide such assessments, we report the reasons for our reservations. Throughout our audits, we look for opportunities to improve government administration.

Audit Selection

We select for audit either programs or functions administered by a specific ministry or public body, or cross-government programs or functions that apply to many government entities. There are a large number of such programs and functions throughout government. We examine the larger and more significant ones on a cyclical basis.

We believe that value-for-money audits conducted using the direct reporting approach should be undertaken on a five- to six-year cycle so that members of the Legislative Assembly and the public receive assessments of all significant government operations over a reasonable time period. Because of limited resources, we have not been able to achieve this schedule.

Our Audit Process

We carry out these audits in accordance with the value-for-money auditing standards established by the Canadian Institute of Chartered Accountants.

One of these standards requires that the "person or persons carrying out the examination possess the knowledge and competence necessary to fulfill the requirements of the particular audit." In order to meet this standard, we employ professionals with training and experience in a variety of fields, including economics, law, accounting, education, engineering, architecture, management, and auditing. These professionals are engaged full-time in the conduct of value-for-money audits. In addition, we often supplement the knowledge and competence of the audit team formed to carry out a particular audit by engaging a consultant who has expertise in the subject of that audit.

As value-for-money audits, like all audits, involve a comparison of actual performance against a standard of performance, the CICA prescribes standards as to the setting of appropriate performance standards or audit criteria. In establishing the criteria, we do not demand theoretical perfection from public sector managers. Rather, we seek to reflect what we believe to be the reasonable expectations of legislators and the public. The CICA standards also cover the nature and extent of evidence that should be obtained to support the content of the auditor's report.

Audit Reporting

The CICA's auditing standards address the reporting of audit results as well. We usually make two reports: one to the Legislative Assembly in the form of our Annual Report; and another, more detailed, report to management of the entity audited.

Compliance, Control, and Accountability Auditing

In addition to those already described, a third broad category of audits is performed by the Office. We refer to it as compliance, control, and accountability auditing. As its title indicates, this category consists of three segments. The segments have a number of common, as well as a some unique, features.

PURPOSES OF THE AUDITS

The *Auditor General Act* calls on the Auditor General to comment in his annual report to the Legislative Assembly on any matter arising from his work that he considers to be of interest to the Assembly. This may deal with such matters as the improper use of public funds, failure to comply with legislative and related authorities, expenditures not authorized by the legislature, inadequate systems of internal control, and deficient accountability reporting.

While our audits of financial statements and our value-for-money audits may give rise to reporting on such matters, we also undertake audits specifically designed to examine these aspects of government administration.

COMPLIANCE-WITH-AUTHORITIES AUDITING

In this context, "authorities" refers to legislation, regulations, orders-in-council, directives, by-laws, policies, guidelines, rules and other instruments through which powers are established and delegated.

Governments and other organizations in the public sector carry out their operations under the authority provided by incorporating or enabling legislation. Legislation may set out the directions, conditions and limitations with which these organizations must comply, and may also specify the administration and transactions of these organizations. For example, government spending, revenue-raising, borrowing and investing activities are carried out under legislative authority. As well, legislation designates administrative responsibilities and powers, and provides direction in regard to the performance of administrative functions. It may govern the appointment of boards and commissions, or prescribe procedures to be followed in the acquisition of goods and services.

Legislation may delegate broad financial and administrative powers to governments, ministers and officials, and they in turn may establish authorities that must be complied with by the organizations concerned. Such authorities are subordinate to the enabling legislation and must comply with the directions, conditions and limitations set out in that legislation.

This structure of authorities constitutes a basis for legislative control over the source, allocation and use of public resources. It thus has a pervasive effect on the activities of governments and other publicly accountable organizations.

Our auditing work to assess compliance with authorities is usually carried out in conjunction with our financial statement attest audits, our value-for-money audits, our internal control reviews and our special studies. However, audits intended to specifically assess the extent of compliance with certain legislative and related authorities are now being conducted by the Office, on a cyclical basis.

Because readers of an audit report on compliance are entitled to an adequate level of assurance, we apply the same professional standards to our examination as those established by the CICA with respect to opinions on financial statements.

In an examination designed to report on compliance with authorities, we seek reasonable assurance that the authorities specified in the audit report have been complied with in all significant respects. Absolute assurance in auditing is not attainable because of such factors as the need for judgment,

the use of testing, and the inherent limitations of internal controls.

In our reporting on compliance, the words "in all significant respects" are used as there may be minor instances of non-compliance that either may not be detected by the audit, or may not be worthy of inclusion in the report.

We must exercise professional judgment when assessing the significance of non-compliance. For example, the needs of the users of the report, the nature of the relevant authorities and the extent of the non-compliance should be considered. As well, the significance of non-compliance cannot always be measured in monetary terms.

Auditors of an organization require knowledge of, and familiarity with, the authorities that apply to the organization being audited and the to transactions for which it is responsible. Because the wording of these authorities may be subject to differing interpretations, auditors may wish to obtain professional advice with respect to legal issues arising in the course of such audits.

Internal Control Reviews

Internal controls are the methods used by an organization to regulate and guide its activities. They include the plan of organization followed, the records maintained, and the procedures employed to ensure that business is conducted properly and efficiently. Reliable internal control systems in government are essential to see that:

- expenditures are made only as authorized;
- all revenue to which the government is entitled is assessed and collected;
- financial transactions are accurately recorded and reported;
- assets of the Crown are safeguarded; and
- relevant legislative and other authorities are complied with.

The ultimate responsibility for good internal controls rests with the government. These controls should be recognized as an integral part of each system used to regulate and guide operations. Good internal controls are not only essential to achieving the proper conduct of government business with full accountability for the resources made available, but they also facilitate the achievement of objectives by serving as checks and balances against undesired actions. By preventing negative consequence from occurring, internal controls help the government to run its operations cost-effectively.

The extent of controls in any system should be determined by the risk of loss, error, or misuse that is judged to be present in the system. The greater the risk, the greater the degree of required control. However, the cost of control should not exceed the benefits likely to be derived. The balancing of these factors—judgement as to risk involved and the need for controls to be cost effective—means that in most situations it is not practical for internal controls to provide absolute assurance that all risks are addressed and that all objectives will be achieved.

For each review undertaken, we acquire a thorough knowledge of the system, including identification of the functions in the system which enable management to achieve its program objectives. The complexity of the control environment is assessed and specific legislative authorities noted. The major internal control risks are then identified, including those relating to any potential contravention of governing legislation, and an audit

program developed to see how well the system addresses the risks. Where major weaknesses are identified, further testing is performed. In determining the amount of testing to be undertaken for a weakness investigation, we take into account the financial impact of a material error occurring in the system being reviewed.

Accountability Studies

As a final segment of this audit category, we undertake, from time to time, examinations which are best described as accountability studies.

In our Mission Statement (see Appendix B), we state that "(the Auditor General) promotes improvement in public sector accountability." Our commentary goes on to say that this sentence "refers to the Auditor General's overall concern with disclosure and accountability throughout the public sector. In this regard, whether through his Annual Report, his dealings with the Public Accounts Committee of the Legislative Assembly, or his direct contact with public officials and administrators, the Auditor General actively furthers the concept of accountability."

The concept of accountability pervades all aspects of government administration, and accordingly forms the basis for some of the commentary in our Annual Report. Nevertheless, we also endeavor to identify certain accountability issues which might be of interest to members of the Legislative Assembly and the general public, and which might not otherwise be subject to review in the normal course of events. As time and resources permit, these issues are studied, and our analysis of them published in our Annual Report.

APPENDIX D

PUBLIC BODIES AUDITED BY THE AUDITOR GENERAL

INCLUDED IN THE SUMMARY FINANCIAL STATEMENTS

British Columbia Assessment Authority

British Columbia Educational Institutions Capital Financing Authority

British Columbia Enterprise Corporation

British Columbia Health Research Foundation

British Columbia Housing and Employment Development Financing Authority

British Columbia Liquor Distribution Branch

British Columbia Regional Hospital Districts Financing Authority

British Columbia School Districts Capital Financing Authority

Creston Valley Wildlife Management Authority Trust Fund

Duke Point Development Limited

Health Facilities Association of British Columbia

Medical Services Commission of British Columbia

Provincial Capital Commission

W.L.C. Developments Ltd.

INCLUDED IN TRUST FUNDS

British Columbia Hydro and Power Authority Pension Fund

BC Rail Ltd. Pension Fund

British Columbia Public Service Long Term Disability Fund

College Pension Fund

Members of the Legislative Assembly Superannuation Account

Municipal Superannuation Fund

Province of British Columbia Pooled Investment Portfolio, Fund ST1

Province of British Columbia Pooled Investment Portfolio, Fund ST2

Province of British Columbia Pooled Investment Portfolio, Fund ST3

Province of British Columbia Pooled Investment Portfolio, Active Canadian Equity Fund

Province of British Columbia Pooled Investment Portfolio, Indexed Canadian Equity Fund

Public Service Superannuation Fund

Teachers' Pensions Fund

Workers' Compensation Board

OTHER

British Columbia Institute of Technology

Legal Services Society

Simon Fraser University

University of British Columbia

University of Northern British Columbia

University of Victoria

Workers' Compensation Board Superannuation Fund

APPENDIX E

PUBLIC BODIES AUDITED BY PRIVATE SECTOR AUDITORS, AND WHOSE FINANCIAL STATEMENTS ARE INCLUDED IN THE PUBLIC ACCOUNTS

INCLUDED IN THE SUMMARY FINANCIAL STATEMENTS

British Columbia Buildings Corporation

British Columbia Ferry Corporation

British Columbia Hazardous Waste Management Corporation

B.C. Health Care Risk Management Society

British Columbia Heritage Trust

British Columbia Housing Management Commission

British Columbia Hydro and Power Authority

British Columbia Lottery Corporation

B.C. Pavilion Corporation

British Columbia Petroleum Corporation

British Columbia Railway Company

British Columbia Steamship Company (1975) Ltd.

B.C. Summer and Winter Games Society

British Columbia Systems Corporation

British Columbia Trade Development Corporation

British Columbia Transit

British Columbia Year of Music Society

Downtown Revitalization Program Society of British Columbia

Housing Corporation of British Columbia

Insurance Corporation of British Columbia

Okanagan Valley Tree Fruit Authority

Pacific National Exhibition

Provincial Rental Housing Corporation

Science Council of British Columbia

The Education Technology Centre of British Columbia

INCLUDED IN TRUST FUNDS

Credit Union Deposit Insurance Corporation of British Columbia

APPENDIX F

EXCERPTS FROM THE 1990-91 PUBLIC ACCOUNTS

The material which forms Appendix F is copied from the Public Accounts of British Columbia for the fiscal year ended March 31, 1991. It consists of:

- Introduction to the Public Accounts, containing a statement of responsibility, and a statement of the government's significant accounting policies.
- The government's Summary Financial Statements.

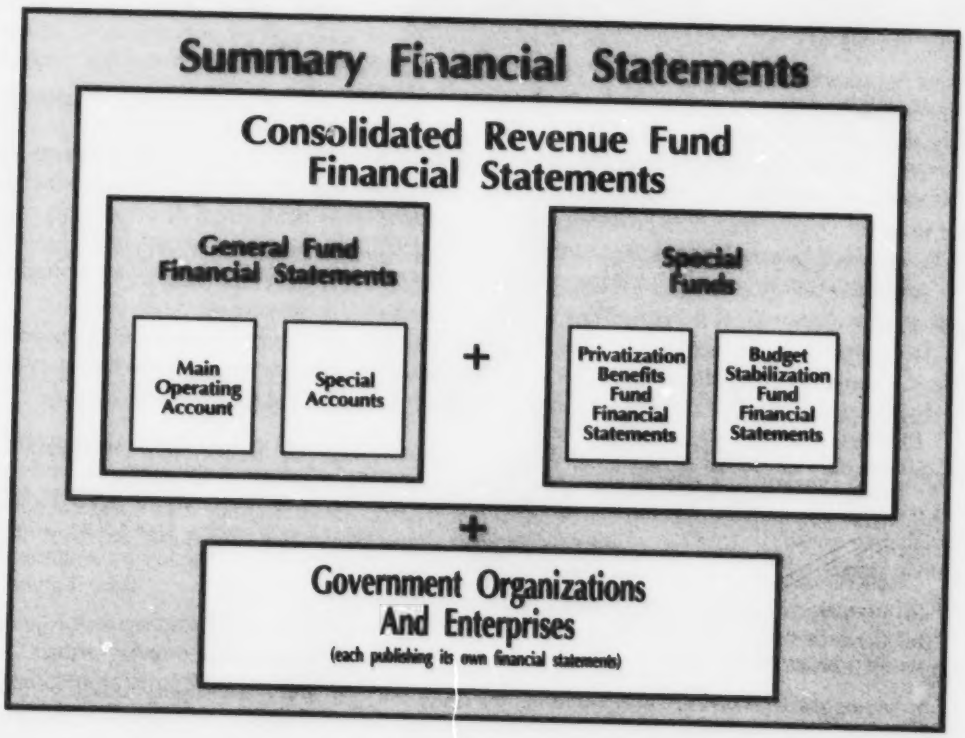
Introduction

The Public Accounts are the documents that contain the audited financial statements of the government and other financial information presented to the Legislative Assembly to show compliance with the various statutory authorities. The government's financial statements are prepared in accordance with the accounting policies described in this Introduction and on a basis consistent with that of the preceding year, except where a change or variation is explicitly described in the Significant Accounting Policies section below.

Government Financial Statements

The government carries on its activities through a variety of appropriations, special funds, corporations and agencies. Financial statements are, therefore, prepared to incorporate various levels of activity under its authority. Five sets of financial statements are produced. They are: General Fund; Privatization Benefits Fund; Budget Stabilization Fund; Consolidated Revenue Fund; and, Summary Financial Statements.

Individual statements are first prepared for the General Fund (main operating account and special accounts), the Privatization Benefits Fund and Budget Stabilization Fund. These represent the funds over which the government has direct control. The operations of these three funds, which together comprise the Consolidated Revenue Fund, are then combined to produce the Consolidated Revenue Fund Statements. When those statements are consolidated with amounts from other government organizations and enterprises, the result is the Summary Financial Statements. This is graphically illustrated as follows:



Each set of financial statements includes the following:

- *Balance Sheet* — a statement of financial position, showing recorded assets and liabilities, with the residual difference being net equity. In addition to the recorded assets, the province owns a significant number of other assets: physical assets, including highways, bridges, ferries and Crown land, which includes parks, forests and all other publicly held land in the province.

- *Statement of Revenue and Expenditure*—a statement summarizing the items of revenue and expenditure for the fiscal year. The net revenue or expenditure for a year represents the change in net equity for the same period.
- *Statement of Changes in Cash and Temporary Investments*—a statement showing how the operating transactions (being those expenditures and other transactions which affect operating results) and financing transactions (being those transactions such as loans which affect the financial position but not the operating results) have affected the cash and temporary investments position of the government. (This statement is omitted from Special Funds as unnecessary due to limited transactions.)
- *Notes and Supplementary Statements to Financial Statements*—these provide additional information on the amounts included in the financial statements and they form an integral part of the financial statements.

Statement of Responsibility for Government Financial Statements

Responsibility for the integrity and objectivity of the government's financial statements rests with the government. The financial statements are prepared by the Comptroller General under the direction of the Treasury Board, pursuant to section 8 (2) of the *Financial Administration Act*, in accordance with the government's stated accounting policies and principles. Each financial statement covers the fiscal year of the government, which is from April 1 to March 31 of the following year.

Significant Accounting Policies

The government's financial statements are prepared in accordance with the accounting policies described below and on a basis consistent with that of the preceding year, except where a change or variation is explicitly described in the 1991 Changes in Accounting Policy section.

Basis of Accounting

The accrual basis of accounting is used, which is specifically expressed as follows:

Revenue

All revenues are recorded on an accrual basis except where the accruals cannot be determined with a reasonable degree of certainty or where their estimation is impracticable. The exceptions, which normally relate to certain payments to the province under the *Federal–Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act, 1977*, are recorded on a cash basis. Revenues from government enterprises are recognized when cash transfers are received or when dividends are declared.

Expenditure

All expenditures, including the cost of fixed assets, are recorded for goods and services received during the year. Grants (which include forgivable loans) are recorded as expenditure when disbursement of the funds has been authorized. Contributions are recorded as expenditure at the earlier of:

(i) the date payment has been authorized; or,
(ii) the date on which performance conditions are achieved by the recipient under provisions of a statute, contract or agreement.

Recoveries of expenditure may be recorded as a credit to the appropriate expenditure account when:

(i) they can be specifically identified with the expenditure transactions and payment has actually been made from an appropriation;
(ii) provision for them has been approved through the Estimates; and
(iii) the expenditure to which they relate was incurred in the same fiscal year.

Assets

All assets are recorded to the extent that they represent cash and claims upon outside parties or items held for resale to outside parties as a result of events and transactions prior to the year–end. Rental payments for leases which transfer the benefits and risks incident to the ownership of certain assets, not including special purpose buildings, are reported as expenditures at the dates of inception of the leases.

Liabilities

All liabilities are recorded to the extent that they represent claims payable to outside parties as a result of events and transactions prior to the year–end, including probable losses on loan guarantees issued by the government.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate prevailing at the year–end, and foreign currency transactions are translated at the exchange rate prevailing at the date of the transaction unless hedged by forward contracts which specify the rate of exchange. Adjustments to revenue or expenditure transactions arising as a result of foreign currency translation are credited or charged to operations at the time the adjustments arise. Unrealized foreign currency gains and losses on long–term, fixed–term monetary assets and liabilities are reported as deferred charges and amortized over the remaining terms of the related items on a straight line basis.

Non–monetary assets and liabilities are translated at historical rates of exchange.

Valuation Allowances

Valuation allowances, such as provisions for doubtful accounts and provisions for reduction in value of investments, are included as expenditures on the statement of revenue and expenditure. Personal and corporate income tax are recorded net of tax credits and adjustments which are based upon revised assessments of actual tax revenue of previous taxation years. Tax credits and adjustments are not considered valuation allowances.

SPECIFIC POLICIES

Cash and Temporary Investments

Cash balances are shown after deducting outstanding cheques issued prior to the year-end. Cheques issued subsequent to the year–end relating to the previous year are included in accounts payable.

Temporary investments include short–term investments recorded at the lower of cost or market value. Temporary investments consist mainly of units in the Province of British Columbia Pooled Investment Portfolios. Units are carried at the lower of cost of acquisition adjusted by income attributed to the units, or market value. Income attributed to the units represents the unitholders' share of interest earned by the portfolio and is realizable by unitholders upon the sale of units.

Accounts Receivable

All amounts receivable (including any trade receivables from government organizations and enterprises) at the year-end for work performed, goods supplied or services rendered are recorded as revenue or recoveries of the fiscal year. Valuation allowances are provided where collectibility is considered doubtful.

Inventories

Inventories comprise items held for resale and are recorded at the lower of cost or net realizable value. Inventories of supplies are charged to the respective programs when the cost is incurred.

Property under development, which will eventually be sold to outside parties, is recorded at the lower of cost or net realizable value.

Amounts Due From Other Governments

Amounts due from other governments include loans and advances outstanding at the year-end.

Investments In and Amounts Due From Crown Corporations and Agencies

Investments in and amounts due represent long–term investments and amounts due, other than trade receivables, and are recorded at cost unless significant prolonged impairment in value has occurred, in which case they are written down to recognize this loss in value. If, in periods subsequent to recognizing this impairment, the value of the investment is restored, the investment is written up to the lesser of restored value or original cost.

Loans, Advances and Other Investments

Loans, advances and other investments are recorded at cost less adjustment for any prolonged impairment in value.

Mortgages Receivable

Mortgages receivable are secured by real estate and are repayable over periods ranging up to thirty years. Valuation allowances are made where collectibility is considered doubtful.

Fiscal Agency Loan Program

Fiscal Agency Loan Program consists of loans made to government bodies, and cash and temporary investments set aside for the specific purpose of loaning to government bodies. Loans are recorded at maturity value less unamortized discounts and sinking fund balances. Discounts are amortized on an effective yield basis.

Other Assets

Other assets include prepaid program costs. Prepaid program costs represent expenditures made during the fiscal year for work to be performed, goods to be supplied, services to be rendered or contractual obligations to be fulfilled by outside parties in a subsequent fiscal year. These costs also include inventories of operating materials held in the Purchasing Commission and Queen's Printer warehouses pending distributions in a subsequent fiscal year.

Also included in other assets are certain deferred charges.

Physical Assets

Disbursements for physical assets are recorded as expenditures in the year the assets are received. Consistent with the reporting of physical assets as expenditures, highways, bridges, wharves, ferries and ferry landings, buildings, office equipment, furniture, automobiles and Crown land comprised of parks, forests and all other publicly held land by the province, not including property under development, are recorded at a nominal value of $1.

Accounts Payable and Accrued Liabilities

All amounts payable (including any trade payables to government organizations and enterprises) for work performed, goods supplied, services known to have been rendered or for charges incurred in accordance with the terms of a contract are recorded as part of the expenditures of the fiscal year.

Amounts Due to Other Governments

Amounts due to other governments represent liabilities incurred due to advances and loans from other governments.

Due to Crown Corporations, Agencies and Funds

Amounts due to Crown corporations, agencies and funds represent liabilities incurred, other than trade payables, which are payable in the following year.

Deferred Revenue

Deferred revenue represents amounts received or receivable prior to the year–end relating to revenue that will be earned in subsequent fiscal years.

Public Debt

Public debt represents direct debt obligations for the purposes of the Government of British Columbia and the Fiscal Agency Loan Program. These obligations are recorded at principal less unamortized discounts and sinking fund balances where applicable. Discounts are amortized on an effective yield basis.

Guaranteed Debt

Guaranteed debt represents that debt of municipalities and other local governments, private enterprises and individuals, and debt and minority interests of provincial Crown corporations, which has been explicitly guaranteed or indemnified by the government, under the authority of a statute, as to net principal or redemption provisions. Valuation allowances are made where probable losses can be reasonably estimated.

A valuation allowance provision is established representing the probable losses on loan guarantees issued by the government. The amount of the provision is determined by the loss experience of the guarantee program and is sufficient to meet the expected payout of the guarantee to the lender. The provision is recorded as an expense in the year the guarantee is issued and is adjusted as necessary to ensure it equals the expected payout of the guarantee.

Commitments

Commitments represent future obligations of the government for capital contracts and extraordinary program commitments, to the extent of contracts and agreements in place at the year–end.

1991 CHANGES IN ACCOUNTING POLICY

- *Valuation Allowances*—beginning in 1990/91, valuation allowances are included in operating expenditures. In 1989/90, valuation allowances were reported as non–operating transactions on the statement of revenue and expenditure. As a result of retroactive application of this change, total 1989/90 operating expenditure has been increased by $22 million; however, there is no change to the net revenue for that year.

Public Accounts Content

The Public Accounts are divided into two volumes as follows:

Consolidated Reporting Entity, Trust Funds and Summaries of Financial Information Reports

- *Summary Financial Statements* — these statements have been prepared to disclose the economic impact of the government's activities. They aggregate the Consolidated Revenue Fund and government organizations and enterprises.
- *Consolidated Revenue Fund Financial Statements* — these statements include the accounts of the Consolidated Revenue Fund, combining the activities of the General Fund with funds earmarked for specific purposes, Special Funds.
- *Financial Statements of Government Organizations and Enterprises*— this section contains the latest audited financial statements of government organizations and enterprises. A summary of financial information for other entities subject to the *Financial Information Act* is incorporated in the last section of this volume.
- *Trust Funds Financial Statements* — this section contains the latest audited financial statements of the pension, superannuation and long–term disability funds administered by the government. A summary of financial information for trust funds is included in this section.
- *Summaries of Financial Statements of Corporations and Agencies to which the Financial Information Act applies* — this section contains summaries of the financial statements of corporations, associations, boards, commissions, societies and public bodies required to report under the *Financial Information Act* (S.B.C. 1985, chapter 8, section 2) and not included elsewhere in this volume.

Financial Statements and Schedules of the Funds Comprising the Consolidated Revenue Fund

- *General Fund Financial Statements—these statements contain the operating activities of the general fund of the government, including special accounts.*
- *Privatization Benefits Fund Financial Statements*—these statements contain the activities of the special fund created by the government to hold in perpetuity the proceeds of assets disposed of through the privatization program.
- *Budget Stabilization Fund Financial Statements*—these statements contain the activities of the special fund created by the government to assist in stabilizing the operating revenues of the government.
- *Supplementary Schedules to the Financial Statements*—this section contains schedules which support the information presented in the province's General Fund financial statements, including details of expenditures by ministerial appropriations, together with an analysis of statutory appropriations and Special Accounts and Funds transactions.
- *Detailed Schedules of Payments*—this section contains detailed schedules of salaries, wages, travel expenses, grants and other payments.

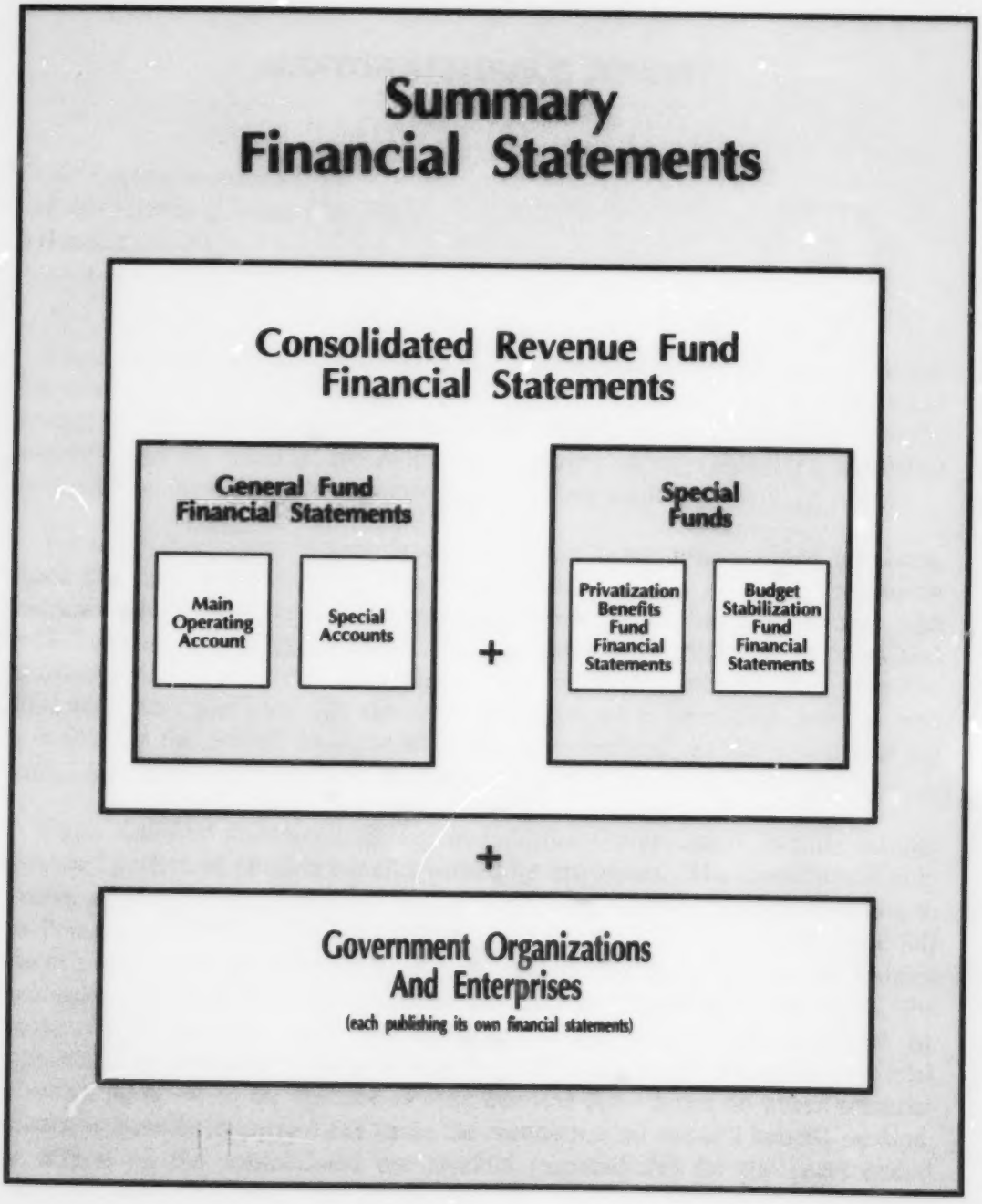
Summary Financial Statements as at March 31, 1991

Contents

	Page
Auditor General's Report	3
Balance Sheet	5
Statement of Revenue and Expenditure	6
Statement of Changes in Cash and Temporary Investments	7
Notes to Financial Statements	8

Supplementary Statements

Statement of Organizations and Enterprises	20
Statement of Government Enterprises	21
Statement of Equity in Government Enterprises	23


Summary
Financial Statements
Consolidated Revenue Fund
Financial Statements
General Fund
Financial Statements
Main
Operating
Account
Special
Accounts
+
Special
Funds
Privatization
Benefits
Fund
Financial
Statements
Budget
Stabilization
Fund
Financial
Statements
+
Government Organizations
And Enterprises
(each publishing its own financial statements)

Legislative Assembly
Province of British Columbia

AUDITOR GENERAL

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AUDITOR GENERAL'S REPORT

To the Legislative Assembly
of the Province of British Columbia
Parliament Buildings
Victoria, British Columbia

I have audited the balance sheet of the Government of the Province of British Columbia as at March 31, 1991 and the statements of revenue and expenditure and changes in cash and temporary investments for the year then ended. These financial statements are the responsibility of the Government. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. In the conduct of my audit, I have received all the information and explanations I have required.

These financial statements do not include the Government's liability for the unfunded portion of pension benefits earned by employees. The Government only records as pension expenditure the amount of funding it provides in accordance with the Pension (Public Service) Act. If the Government had been recording the full cost of pension benefits accruing to its employees in each fiscal year, in the manner recommended in 1988 by the Canadian Institute of Chartered Accountants, the Government's liabilities and net deficiency would have been increased by approximately $441 million as at March 31, 1990, the date of the latest actuarial valuation pursuant to the Pension (Public Service) Act. Since no other actuarial valuations have been carried out using the recommended accrued benefit method, the effects on the consolidated net revenue (expenditure) for the years ended March 31, 1990 and 1991, and on the liabilities and net deficiency at March 31, 1991, are not reasonably determinable.

...2

AUDITOR GENERAL'S REPORT
Summary Financial Statements
Page 2

I report in accordance with section 7 of the Auditor General Act. In my opinion, except for the effects of not recording the Government's liability for the unfunded portion of pension benefits earned by employees as referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Government as at March 31, 1991 and the results of its operations and the changes in its financial position for the year then ended in accordance with the stated accounting policies as set out in note 1 to these financial statements applied, after giving retroactive effect to the changes explained in the 1991 Changes in Accounting Policy section of the Introduction to the 1990/91 Public Accounts, on a basis consistent with that of the preceding year.

George L. Morfitt, F.C.A.
Auditor General

Victoria, British Columbia
August 15, 1991

Summary Financial Statements Balance Sheet as at March 31, 1991

	Note	In Millions 1991	1990
Assets		$	$
Cash and temporary investments	2	219	442
Accounts receivable	3	1,276	1,066
Inventories	4	47	55
Amounts due from other governments	5	64	70
Equity in government enterprises	6	2,377	2,280
Loans, advances and other investments	7	887	800
Mortgages receivable	8	147	138
Fiscal Agency Loan Program	9	7,395	6,287
Other assets	10	28	11
		12,441	**11,149**
Liabilities and Net Equity (Deficiency)			
Liabilities:			
Accounts payable and accrued liabilities	11	1,311	1,225
Amounts due to other governments	12	197	140
Due to Crown corporations, agencies and trust funds	13	53	54
Deferred revenue	14	269	273
Public debt, used for government operating purposes	15	5,318	4,803
Public debt, used for Fiscal Agency Loan Program	16	7,399	6,257
		14,547	12,752
Net equity (deficiency)	17	(2,106)	(1,603)
		12,441	**11,149**
Physical assets	18		
Contingencies and commitments	19		

The accompanying notes and supplementary statements are an integral part of these financial statements.

Approved on behalf of the Ministry of Finance and Corporate Relations:

DOUGLAS H. HORSWILL
Deputy Minister of Finance and Corporate Relations

ALAN J. BARNARD
Deputy Comptroller General
Acting for the Comptroller General

Summary Financial Statements
Statement of Revenue and Expenditure
for the Fiscal Year Ended March 31, 1991

	In Millions	
	1991	1990
	$	$
Revenue		
Taxation	8,956	7,969
Natural resources	1,171	1,249
Fees and licences	1,315	1,288
Investment earnings	140	168
Miscellaneous	792	783
Contributions from government enterprises	601	530
Contributions from the federal government	1,961	2,101
Recoveries	870	690
Total revenue	**15,806**	**14,778**
Expenditure		
Health	5,047	4,502
Social services	1,630	1,465
Education	4,108	3,237
Protection of persons and property	631	549
Transportation	1,169	1,179
Natural resources and economic development	1,001	946
Other	494	533
General government	683	645
Debt servicing	1,660	1,415
Total operating expenditure (Note 20)	**16,423**	**14,471**
Net Operating Revenue (Expenditure) for the Year	**(617)**	**307**
Non–Operating Transactions		
Increase in unremitted equity of government enterprises (Note 6)	114	97
Consolidated Net Revenue (Expenditure) for the Year (Note 21)	**(503)**	**404**

The accompanying notes and supplementary statements are an integral part of these financial statements.

Summary Financial Statements
Statement of Changes in Cash and Temporary Investments for the Fiscal Year Ended March 31, 1991

	In Millions 1991			1990
	Receipts $	Disbursements $	Net $	Net $
Operating Transactions				
Net operating revenue (expenditure) for the year			(617)	307
Non-cash items included in net expenditure:				
Accounts receivable (increases)			(213)	(94)
Due from other governments decreases			6	
Accounts payable increases			86	90
Due to other governments increases			57	
Public debt issue/discount increase			70	25
Equity in government enterprises (increases)			(97)	(182)
Due to Crown corporations (decreases)			(1)	(6)
Provision for doubtful accounts			42	22
Unremitted equity of government enterprises increases			114	97
Cash items applicable to future operations			(23)	55
Cash derived from (used for) operations			(576)	314
Investment Transactions				
Loans, advances and other investments (issues)	218	314	(96)	(210)
Mortgages receivable repayments (issues)	39	68	(29)	282
Cash derived from (used for) investments	257	382	(125)	72
Total financial increases (decreases)			(701)	386
Financing Transactions[1]				
Increase in public debt	16,531	14,949	1,582	201
Used for Fiscal Agency Loan Program	(9,182)	(8,078)	(1,104)	(869)
Cash derived from (used for) financing	7,349	6,871	478	(668)
(Decrease) in cash and temporary investments			(223)	(282)
Balance—beginning of year			442	724
Balance—end of year			**219**	**442**

[1] Financing transaction receipts are from debt issues and disbursements are for debt repayments.

The accompanying notes and supplementary statements are an integral part of these financial statements.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1991

1. Significant Accounting Policies

(a) Reporting Entity

These financial statements include the accounts of organizations which are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the Legislature, and are owned or controlled by the government.

A detailed schedule of organizations included in these consolidated financial statements may be found on B 20.

Advanced education institutions are excluded from consolidation. These organizations are dissimilar to other government organizations in terms of their objectives, operations and financial reporting practices. Trusts administered by a government or government organization are excluded from the government reporting entity.

(b) Principles of Consolidation

The accounts of the organizations, except those designated as government enterprises, are consolidated after adjusting them to a basis consistent with the accounting policies described below. Inter–organization accounts and transactions are eliminated upon consolidation.

A government enterprise has the financial and operating authority to carry on a business, including contracting in its own name, and sells goods and services to individuals and non-government organizations as its principal activity and source of revenue.

Government enterprises are recorded on the modified equity basis. Under this basis, the government's investment is initially recorded at cost and adjusted annually to include the net earnings/losses and other net equity changes of the enterprise without adjusting them to conform with the accounting policies described below. Since the government ensures the ongoing activities of government enterprises, full account is taken of losses in these enterprises, even where the cumulative losses exceed the original investment.

Inter–enterprise accounts and transactions are not eliminated. However, profit elements included in such transactions, including certain increases in contributed surplus, are eliminated.

Adjustments are not made to account for changes in organizations whose fiscal year-ends are not March 31, unless the effect of adjustment would be significant to the consolidated operating results.

(c) Basis of Accounting and Specific Policies

The basis of accounting, specific policies and 1991 changes in accounting policy are as stated in the Introduction section of the Public Accounts, with the following amendments:

- Equity in government enterprises represents the government's investment (including long–term advances) in those government organizations at cost, adjusted for increases and decreases in the investees' net assets.
- The policies "Investments in and amounts due from Crown corporations and agencies" and "Revenues from government enterprises" are not applicable.
- Public debt includes debt obligations of the consolidated Crown corporations, and commitments include future obligations of all the government organizations and enterprises.
- For these financial statements the gross basis of accounting is followed. In particular, recoveries are reported as revenue.

2. Cash and Temporary Investments

	In Millions	
	1991	1990
	$	$
Cash (cheques issued in excess of funds on deposit)	(10)	(107)
Temporary investments		
Units in Province of British Columbia Pooled Investment Portfolios	229	549
	219	442

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1991—Continued

3. Accounts Receivable

	In Millions	
	1991	1990
	$	$
Taxes receivable	813	544
Trade accounts receivable	351	301
Accrued interest	178	187
Crown corporations and agencies	15	112
	1,357	1,144
Less provision for doubtful accounts	(81)	(78)
	1,276	1,066

4. Inventories

	In Millions	
	1991	1990
	$	$
Property under development	46	53
Ministerial inventories	1	2
	47	55

5. Amounts Due From Other Governments

	In Millions	
	1991	1990
	$	$
Government of Canada:		
Current	62	66
Local Governments:[1]		
Current	2	4
	64	70

[1] Local governments are municipal units established by the provincial government. They include regional and metropolitan municipalities, cities, towns, townships, districts, rural municipalities and villages.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1991—Continued

6. Equity in Government Enterprises[1]

In Millions

	1991			1990
	Investments $	Unremitted Earnings $	Total $	Total $
British Columbia Assessment Authority		4	4	5
British Columbia Ferry Corporation		226	226	193
British Columbia Housing and Employment Development Financing Authority		1	1	
British Columbia Housing Management Commission		7	7	5
British Columbia Hydro and Power Authority	122	747	869	790
British Columbia Liquor Distribution Branch				17
British Columbia Lottery Corporation	15		15	14
B.C. Pavilion Corporation	154	(2)	152	158
British Columbia Petroleum Corporation		1	1	27
British Columbia Railway Company	268	585	853	820
British Columbia Steamship Company (1975) Ltd.		3	3	4
British Columbia Transit		112	112	110
Duke Point Development Limited		4	4	4
Housing Corporation of British Columbia				5
Insurance Corporation of British Columbia		56	56	55
Pacific National Exhibition		30	30	30
Provincial Capital Commission		4	4	3
Provincial Rental Housing Corporation	21	2	23	23
W.L.C. Developments Ltd.		17	17	17
	580	1,797	2,377	2,280

[1] See B 21 for details.

Change in Equity in Government Enterprises

In Millions

	1991			1990
	Investments $	Unremitted Earnings $	Total $	Total $
Balance—beginning of year	597	1,683	2,280	2,098
Increase (decrease) for the year	(17)	114	97	182
Balance—end of year	580	1,797	2,377	2,280

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1991—Continued

7. Loans, Advances and Other Investments

	In Millions	
	1991	1990
	$	$
Agricultural Land Development Act	14	14
Crop Insurance Stabilization Act	15	15
Development Corporation Act	116	120
Downtown Revitalization Act	11	13
Homeowner Assistance Act	4	5
Industrial Development Fund Act	21	22
Industrial Development Incentive Act	139	114
Low Interest Loan Agreement Revolving Fund Act	4	5
Ministry of Lands, Parks and Housing Act	2	5
Privatization Benefits Fund Act	474	422
Province of Saskatchewan	100	100
Vancouver Island Gas Pipeline Act	21	
Other	52	42
	973	877
Less provision for doubtful accounts	(86)	(77)
	887	800

8. Mortgages Receivable

	In Millions	
	1991	1990
	$	$
Crown Land—pursuant to the *Ministry of Lands, Parks and Housing Act*	18	20
False Creek land sale		
Note receivable	100	91
Public participation funding agreement	20	20
Provincial Regional Housing Corporation	1	
Provincial Home Acquisition—pursuant to the *Provincial Home Acquisition Act, Home Purchase Assistance Act,* and the *Home Conversion and Leasehold Loan Act*	43	22
Other	3	3
	185	156
Less provision for doubtful accounts	(38)	(18)
	147	138

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1991—Continued

9. Fiscal Agency Loan Program

	In Millions	
	1991	1990
	$	$
Cash and temporary investments held for relending		54
Loans made to governement bodies:		
British Columbia Assessment Authority	6	4
British Columbia Hydro and Power Authority	3,736	2,981
British Columbia Railway Company	78	49
British Columbia Transit	979	920
Capital Project Certificate of Approval Program	171	189
Greater Vancouver Sewerage and Drainage District	26	27
Greater Vancouver Water District	62	20
Improvement Districts	2	2
Post Secondary Educational Institutions	482	426
Regional Hospital Districts	852	743
School Districts	954	821
Simon Fraser University	2	3
Thompson-Nicola District	1	1
University of British Columbia	41	43
University of Victoria	4	4
	7,396	6,287

10. Other Assets

	In Millions	
	1991	1990
	$	$
Prepaid program costs	3	1
Unamortized issue costs of public debt	25	10
	28	11

11. Accounts Payable and Accrued Liabilities

	In Millions	
	1991	1990
	$	$
Trade accounts payable and other liabilities	913	829
Accrued interest on public debt	294	319
Accrued employee leave entitlements	87	72
Forest Act, section 88	1	1
Provision for guaranteed debt payout	16	4
	1,311	1,225

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1991—Continued

12. Amounts Due to Other Governments

	In Millions	
	1991	1990
	$	$
Government of Canada:		
Current	151	88
Local Governments:[1]		
Current	46	45
Long term		7
	46	52
	197	140

[1] Local governments are municipal units established by the provincial government. They include regional and metropolitan municipalities, cities, towns, townships, districts, rural municipalities and villages.

13. Due to Crown Corporations, Agencies and Trust Funds

	In Millions	
	1991	1990
	$	$
Trust Funds	16	22
British Columbia Colleges and Institutes	14	13
British Columbia Liquor Disribution Branch	2	
British Columbia Transit	10	9
Simon Fraser University	3	3
University of British Columbia	7	6
University of Victoria	1	1
	53	54

14. Deferred Revenue

	In Millions	
	1991	1990
	$	$
Motor vehicle licences and permits	83	76
Water rentals and recording fees	61	55
Petroleum, natural gas and minerals, leases and fees	22	22
Medical Services Plan premiums	39	40
Miscellaneous	64	80
	269	273

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1991—Continued

15. Public Debt, Used for Government Operating Purposes

In Millions

	Year of Maturity	1991 Canadian Dollar Debt $	1991 U.S. Dollar Debt (CDN $) $	1991 Total Canadian Dollars $	1991 Weighted Average Coupon Rate Percent	1990 Total Canadian Dollars $	1990 Weighted Average Coupon Rate Percent
Short-term promissory notes	1990-1991	106		106			
	1991-1992	587	294	881		311	
	1992-1993	11		11			
Treasury bills	1990-1991					780	
	1991-1992	780		780			
Notes and bonds	1990-1991					688	9.76
	1991-1992	714	1	715	10.24	758	10.18
	1992-1993	346		346	8.33	357	8.22
	1993-1994	457	1	458	9.90	357	9.24
	1994-1995	74	12	86	9.95	88	7.14
	1995-1996	622		622	10.78	322	10.58
	1996-2001	2,047	4	2,051	10.15	1,417	9.19
	2001-2006	363		363	11.96	316	12.34
	2006-2011	137		137	10.55	13	8.51
		4,760	18	4,778	10.24	4,316	9.67
Total debt issued at face value		6,244	312	6,556		5,407	
Less:							
Sinking funds				(1,054)		(443)	
				5,502		4,964	
Unamortized discount				(184)		(161)	
				5,318		4,803	

Promissory notes outstanding at March 31, 1991 mature at various dates to February 26, 1993 at an annual average interest rate of 11.56%. During the year, $3.6 billion in notes were issued at interest rates which varied between 9.62% and 13.53%.

Treasury bills outstanding at March 31, 1991 mature at various dates to September 25, 1991 at an annual average interest rate of 10.77%. During the year, $2.5 billion in Treasury bills were issued at interest rates which varied between 9.53% and 13.84%.

The province had 166 series of notes and bonds outstanding at March 31, 1991.

Included in notes and bonds payable in Canadian currency are Japanese Yen notes totalling 27.8 billion Yen (1990: 29.4 billion Yen) which have been fully hedged to $203 million Canadian (1990: $211.9 million Canadian) through currency exchange agreements.

The aggregate amounts of payments estimated to be required in each of the next five fiscal years to meet sinking fund and retirement provisions are:

In Millions

	Canadian Funds $	U.S. Funds $
1992	731	1
1993	379	1
1994	293	1
1995	177	8
1996	573	

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1991—Continued

16. Public Debt, Used for Fiscal Agency Loan Program

In Millions

	Year of Maturity	1991 Canadian Dollar Debt $	1991 U.S. Dollar Debt (CDN $) $	1991 Total Canadian Dollars $	1991 Weighted Average Coupon Rate Percent	1990 Total Canadian Dollars $	1990 Weighted Average Coupon Rate Percent
Promissory notes	1990-1991					2,613	
	1991-1992	1,419	1,254	2,673		123	
Notes, bonds and debentures	1990–1991					39	11.53
	1991-1992	125	11	136	10.18	136	10.18
	1992-1993	42		42	12.42	42	13.09
	1993-1994	720		720	11.74	581	11.65
	1994-1995	283		283	9.25	326	9.54
	1995-1996	164		164	9.21	172	9.14
	1996-2001	1,341		1,341	10.38	1,198	10.20
	2001-2006	1,450		1,450	13.50	1,450	13.49
	2006-2011	1,633		1,633	10.25	1,194	10.07
	2016-2021	300		300	10.60		
		6,058	11	6,069	11.19	5,138	11.24
Total debt issued at face value		7,477	1,265	8,742		7,874	
Less:							
Sinking funds				(1,253)		(1,515)	
				7,489		6,359	
Unamortized discount				(90)		(102)	
				7,399		6,257	

Promissory notes outstanding at March 31, 1991 mature at various dates to March 30, 1992 atan annual average interest rate of 10.72%. During the year, $8.5 billion in notes were issued at interest rates which varied between 2.97% and 14%.

The province had 357 issues of notes, bonds and debentures outstanding at March 31, 1991.

Included in notes, bonds and debentures payable in Canadian currency are Japanese Yen notestotalling 9.8 billion Yen (1990: 11.6 billion Yen) which have been fully hedged to $63.1 million Canadian (1990: $73 million Canadian) through foreign currency exchange agreements.

The aggregate amounts of payments estimated to be required in each of the next five fiscal years to meet sinking fund and retirement provisions are:

In Millions

	Canadian Funds $	U.S. Funds $
1992	200	6
1993	118	
1994	956	
1995	303	
1996	126	

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1991—Continued

17. Net Equity (Deficiency)

	In Millions	
	1991	1990
	$	$
Net equity (deficiency)—beginning of year	(1,603)	(2,007)
Net revenue (expenditure) for the year	(503)	404
Net equity (deficiency)—end of year	(2,106)	(1,603)

18. Physical Assets

Physical assets are recorded as expenditures in the year they are received. Expenditures for physical assets are classified in the books of the province as "Asset Acquisitions." During the 1990/91 fiscal year, the following types of physical asset acquisitions have been recorded:

	In Millions	
	1991	1990
	$	$
Data and word processing equipment	96	103
Office furniture and equipment	15	20
Lands, buildings and works	465	438
Machinery, equipment and works	12	20
	588	581

19. Contingencies and Commitments

(a) GUARANTEED DEBT

Guaranteed debt as at March 31, 1991 totalled $4.4 billion (1990: $4.9 billion).

	In Millions	
	1991	1990
	Net Outstanding $	Net Outstanding $
Municipalities and other local governments	6	8
Health and education	118	99
Economic development	885	616
Utilities	3,461	4,246
Total	4,470	4,969
Less:		
Amounts included as investments within the consolidated entity	(92)	(87)
Provision for probable payout	(16)	(4)
Total	4,362	4,878

(b) CONTINGENT LIABILITIES

(i) Pending litigation

The Government is a defendant in legal actions which may give rise to future liabilities. Because the outcome of the litigation is uncertain, no amount has been recorded in these financial statements.

- Consolidated Revenue Fund—the total claimed in specific legal actions, where the estimated or known claim is or exceeds $100,000, amounts to approximately $462 million. *See* Note 19 to the Consolidated Revenue Fund Financial Statements section of the Public Accounts for details.
- Consolidated Crown corporations—Medical Services Commission of British Columbia: In the 1988/89 fiscal year an action was commenced by physicians in the section of Emergency Medicine of the British Columbia Medical Association claiming damages, together with interest and costs, for payments allegedly withheld by the Commission. The amount of the damages is not stated in the Writ of Summons served on the Commission. It is the opinion of the Commission's management and its legal counsel that the physicians have no cause of action.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1991—Continued

19. Contingencies and Commitments—Continued

(b) CONTINGENT LIABILITIES—Continued

(ii) Other contingent liabilities

Under the terms of the sale of the Expo 86 lands, the province is required to clean the site of all hazardous materials.

The Government also has contingent liabilities in the form of indemnities, indirect guarantees and outstanding claims. Where indemnities are for explicit quantifiable loans, the amounts are included in guaranteed debt. No liability for all other contingent liabilities has been recorded in these financial statements because amounts are uncertain.

(c) COMMITMENTS

At the end of each year, government has a number of commitments outstanding for capital contracts and extraordinary programs. Such future expenditures are recorded as a charge in the year in which the work or service is performed. Year–end commitments for capital contracts and extraordinary costs totalled approximately $388 million (1990: $261 million).

(d) SUPERANNUATION AND PENSION ACTUARIAL VALUATIONS

(i) The government has statutory responsibilities, in the event of a deficiency existing between the money available for payment of superannuation allowances and the amounts necessary to meet the payment of these allowances, equal to:

- the amount of the deficiency in the case of the Public Service Superannuation Fund; and
- the amount specified by the Lieutenant Governor in Council in the case of the College Pension Fund.

(ii) The funds administered by the Superannuation Commission require that periodic actuarial valuations be performed for the purpose of assessing the adequacy of contribution rates and the financial position of the funds. The reporting of an unfunded liability by the actuary indicates that a deficiency of funds may arise in the future if the actions recommended by the actuary are not followed.

The unfunded liabilities as shown in the **latest actuarial valuations** for the above funds are provided for information purposes:

	In Millions	
	Public Service Superannuation as at March 31, 1990	College Pension as at August 31, 1988
	$	$
Total actuarial liability	5,447	372
Less assets:		
Fund	(3,107)	(196)
Present value of future contributions	(1,902)	(146)
Unfunded liability	438	30

(iii) The Government also has statutory responsibility for any deficiency which arises between the money available in the Members of the Legislative Assembly Superannuation Account for the payment of superannuation allowances and the amounts necessary to meet the payment of such allowances. It is the practice of the government to fully fund such deficiences at the time a Member or his surviving spouse becomes eligible and elects to receive an allowance. An actuarial valuation of the account is not required by the *Legislative Assembly Allowances and Pension Act* and no such valuation has been performed.

See the Trust Funds Financial Statements section of the Public Accounts for further details of these funds.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1991—Continued

20. Expenditure by Group Account Classification

In Millions

	1991	1990
	$	$
Grants and contributions	11,095	9,559
Salaries and benefits	1,388	1,222
Operating costs	1,532	1,383
Asset acquisitions	588	581
Other	1,820	1,726
Total operating expenditure	16,423	14,471

Valuation allowances of $45 million (1990: $22 million) are included in the "Other" group account classification.

21. Comparison of Planned and Actual Results

A comparison of budget and actual net revenue (expenditure) is as follows:

In Millions

	1991		1990	
	Budget $	Actual[1] $	Budget $	Actual[1] $
Organizations recorded on consolidated basis:				
Consolidated Revenue Fund:				
General Fund		85		144
Budget Stabilization Fund	(524)	(762)	(375)	109
Privatization Benefits Fund	22	52	20	112
	(502)	(625)	(355)	365
British Columbia Buildings Corporation		8		(55)
British Columbia Hazardous Waste Management Corporation		1		
B.C. Health Care Risk Management Society		5		
British Columbia Health Research Foundation		(2)		(1)
British Columbia Heritage Trust		1		1
British Columbia Systems Corporation		4		
British Columbia Trade Development Corporation		(8)		(7)
British Columbia Year of Music Society		1		(1)
Downtown Revitalization Program Society of British Columbia		6		1
Health Facilities Association of British Columbia		(11)		(1)
Okanagan Valley Tree Fruit Authority		1		
Science Council of British Columbia		2		5
		(617)		307
Organizations recorded on modified equity basis—government enterprises		114		97
Consolidated net revenue (expenditure)		(503)		404

[1] The actual figures reflect the elimination of inter-organization transactions.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 1991—Continued

22. Expenses Due to Increases in Valuation Allowances

	In Millions	
	1991	1990
	$	$
Accounts receivable	20	3
Investments in and amounts due from Crown corporations and agencies	4	4
Loans, advances and other investments	14	15
Mortgages receivable	1	
Other assets	6	
	45	22

These amounts are included in expenditure and represent the write down of assets in the above categories.

23. Trust Funds

Amounts held and administered in trust by the government at the end of the fiscal year totalled $23,104 million (1990: $20,376 million). See Note 22 to the Consolidated Revenue Fund Financial Statements for further details.

24. Comparatives

Certain of the comparative figures for the previous year have been reclassified to conform with the current year's presentation.

Amounts due from, and to, other governments—beginning in 1990/91, amounts due from, and to, other governments are shown as separate classifications on the Balance Sheet. Comparative amounts for 1989/90 have been restated to reflect these new categories.

These reclassifications have had no effect on the operating results or fund balances as previously reported.

Summary Financial Statements
Statement of Organizations and Enterprises Recorded on a Consolidated or Modified Equity Basis for the Fiscal Year Ended March 31, 1991

Government Organizations Recorded on Consolidated Basis

Consolidated Revenue Fund:
- General Fund
- Budget Stabilization Fund
- Privatization Benefits Fund

B.C. Health Care Risk Management Society
B.C. Summer and Winter Games Society
British Columbia Buildings Corporation
British Columbia Educational Institutions Capital Financing Authority
British Columbia Hazardous Waste Management Corporation
British Columbia Health Research Foundation
British Columbia Heritage Trust
British Columbia Regional Hospital Districts Financing Authority
British Columbia School Districts Capital Financing Authority
British Columbia Systems Corporation
British Columbia Trade Development Corporation
British Columbia Year of Music Society
Downtown Revitalization Program Society of British Columbia
First Peoples' Heritage, Language and Culture Council
Health Facilities Association of British Columbia
Medical Services Commission of British Columbia
Okanagan Valley Tree Fruit Authority
Science Council of British Columbia
The Education Technology Centre of British Columbia

Government Enterprises Recorded on Modified Equity Basis

B.C. Pavilion Corporation
British Columbia Assessment Authority
British Columbia Enterprise Corporation
British Columbia Ferry Corporation
British Columbia Housing and Employment Development Financing Authority
British Columbia Housing Management Commission
British Columbia Hydro and Power Authority
British Columbia Liquor Distribution Branch
British Columbia Lottery Corporation
British Columbia Petroleum Corporation
British Columbia Railway Company
British Columbia Steamship Company (1975) Ltd.
British Columbia Transit
Creston Valley Wildlife Management Authority Trust Fund
Duke Point Development Limited
Housing Corporation of British Columbia
Insurance Corporation of British Columbia
Pacific National Exhibition
Provincial Capital Commission
Provincial Rental Housing Corporation
W.L.C. Developments Ltd.
178561 B.C. Ltd. (formerly Pacific Coach Lines Ltd.)

Statement of Government Enterprises
Summary of Financial Position and Operating Results
for the Year Ended March 31, 1991

In Millions

Financial Position	Utility	Insurance	Liquor	Trans-portation	Finance	Industry	Natural Resources	Housing	Total
	$	$	$	$	$	$	$	$	$
Assets									
Cash and temporary investments	132	2,585		76	51	6	5	18	2,873
Accounts receivable	337	116	3	91	12	3	6	6	574
Inventories	57		48	23		27			155
Loans and advances						1			1
Long-term investments				38		4		1	43
Fixed assets	8,449	125	8	3,027	11	184		165	11,969
Other assets	282	61	1	44	3			4	395
Total Assets	9,257	2,887	60	3,299	77	225	11	194	16,010
Liabilities									
Accounts payable and accrued liabilities	477	2,108	60	243	48	16	6	28	2,986
Long-term debt:									
—owing to government	4,067			1,027		4		4	5,102
—owing to others	3,057			593	6			71	3,727
Other long-term liabilities				6					6
Deferred liabilities	780	723		7	4	2			1,516
Total Liabilities	8,381	2,831	60	1,876	58	22	6	103	13,337
Net Assets (Liabilities)	876	56	0	1,423	19	203	5	91	2,673
Adjustments and eliminations									
Unrealized inter-company profit									0
Unamortized asset appraisal increases				(133)				(83)	(216)
Unamortized gain on debt defeasance	(15)			(99)					(114)
Permanent debt/equity financing	8			3				23	34
Equity in Government Enterprises 1990/91	869	56	0	1,194	19	203	5	31	2,377
Equity in Government Enterprises 1989/90	790	55	17	1,127	19	209	29	34	2,280

Statement of Government Enterprises
Summary of Financial Position and Operating Results
for the Year Ended March 31, 1991—Continued

In Millions

Results of Operations	Utility	Insurance	Liquor	Trans-portation	Finance	Industry	Natural Resources	Housing	Total
	$	$	$	$	$	$	$	$	$
Revenue									
From operations	1,909	1,729	1,334	794	641	58	38	73	6,576
Transfer from government				271	6	7	1	30	315
Total revenue	1,909	1,729	1,334	1,065	647	65	39	103	6,891
Expenses									
From operations	1,380	1,728	889	999	436	66	35	101	5,634
Transfers to government	*353*						*28*		*381*
Total expenses	1,733	1,728	889	999	436	66	63	101	6,015
Net Income (Loss) for the Year 1990/91	176	1	445	66	211	(1)	(24)	2	876
Net Income (Loss) for the Year 1989/90	120	45	420	19	202	88	(6)	1	889

Statement of Equity in Government Enterprises for the Fiscal Year Ended March 31, 1991

In Millions

	Utility[1]	Insurance[2]	Liquor[3]	Trans-portation[4]	Finance[5]	Industry[6]	Natural Resources[7]	Housing[8]	Total
Balance—beginning of year	$ 790	$ 55	$ 17	$ 1,127	$ 19	$ 209	$ 30	$ 33	$ 2,280
Net earnings (losses) for the year	176	1	445	66	211	(1)	(24)	2	876
Capital transfers to government	(101)		(462)		(211)				(774)
Adjustments and eliminations	4			1		(5)	(1)	(4)	(5)
Increase (decrease) in equity of Government Enterprises	79	1	(17)	67	0	(6)	(25)	(2)	97
Balance—end of year	869	56	0	1,194	19	203	5	31	2,377

[1] Utility includes British Columbia Hydro and Power Authority.
[2] Insurance includes Insurance Corporation of British Columbia.
[3] Liquor includes British Columbia Liquor Distribution Branch.
[4] Transportation includes British Columbia Ferry Corporation, British Columbia Railway Company, British Columbia Steamship Company (1975) Ltd., British Columbia Transit and 178561 B.C. Ltd (formerly Pacific Coach Lines Ltd.).
[5] Finance includes British Columbia Assessment Authority and British Columbia Lottery Corporation.
[6] Industry includes British Columbia Enterprise Corporation, B.C. Pavilion Corporation, Pacific National Exhibition, Duke Point Development Limited and W.L.C. Developments Ltd.
[7] Natural Resources includes Creston Valley Wildlife Management Authority Trust Fund, Provincial Capital Commission and British Columbia Petroleum Corporation.
[8] Housing includes British Columbia Housing Management Commission, Provincial Rental Housing Corporation, Housing Corporation of British Columbia and British Columbia Housing and Employment Development Financing Authority.